

**Report of the
Comptroller and Auditor General
of India**

For the year ended March 2017

Laid in Lok Sabha/Rajya Sabha on _____

**Union Government (Railways)
Railways Finances
Report No. 1 of 2018**

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PREFACE

This Report has been prepared for submission to the President of India under Article 151 of Constitution of India.

Chapters 1 and 2 of the Report contain audit observations on matters arising from examination of Finance Accounts and Appropriation Accounts respectively of Indian Railways for the year ended 31 March 2017.

Chapter 3 of the Report contains audit observations on accounting of assets, maintenance of assets records, depreciation of assets, disclosure of assets taken on lease, accounting of assets condemned, disclosure of assets created through extra budgetary resources in Indian Railways.

List of Abbreviations used in the Report

Unit	Expansion of the abbreviation
CR	Central Railway
ER	Eastern Railway
ECR	East Central Railway
ECoR	East Coast Railway
NR	Northern Railway
NCR	North Central Railway
NER	North Eastern Railway
NEFR	North East Frontier Railway
NWR	North Western Railway
SECR	South East Central Railway
SCR	South Central Railway
SER	South Eastern Railway
SR	Southern Railway
SWR	South Western Railway
WR	Western Railway
WCR	West Central Railway
Metro	Metro Railway Kolkata

EXECUTIVE SUMMARY

Background

Indian Railways (IR) is a departmental commercial undertaking of the Government of India. It consists of 67,368 route kms* on which 22,550 trains ply, carrying about 22.24 million passengers and hauling nearly 3.04 million tonne of freight every day. Policy formulation and overall control of the Railways are vested in Railway Board comprising of the Chairman, Financial Commissioner and other functional Members. The IR system is managed through 17 zones having 68 operating divisions. Apart from the zonal railways representing the operational part of the system, there are eight production units engaged in manufacturing of rolling stock and other related items.

From 1 April 1950, a separate Railway Budget is being presented to the Parliament prior to presentation of the General Budget every year. Till the year 2016-17 the Railway Budget was presented to the Parliament separately and figures relating to the receipts and expenditure of IR were shown in the General Budget, as Railway Budget formed part of the total budget of the Government of India. However, Government has decided to merge Railway Budget with the Union Budget from Budget Year 2017-18 onwards.

Summary of Conclusions

Report of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2016 (Report No.37of 2016) highlighted that during 2015-16, total revenue receipts increased by 4.57 *per cent* which was significantly below the Compound Annual Growth Rate (CAGR) of 14.86 *per cent* during the period 2011-15. The growth of freight earnings was 3.23 *per cent* in 2015-16 which was below the CAGR of 15.01 *per cent* registered during 2011-15. The growth of passenger earnings was 4.96 *per cent* in 2015-16 which was also below the CAGR of 14.31 *per cent* registered during 2011-15. Net surplus after meeting dividend liability was ₹10,505.97 crore in 2015-16. The Operating Ratio improved to 90.49 *per cent* in 2015-16 from 91.25 *per cent* in 2014-15.

During 2016-17, the total revenue receipts of ₹ 1,65,382.49 crore decreased by 1.78 *per cent* as compared to total revenue receipts of ₹ 1,68,379.60 crore during 2015-16. This was significantly below CAGR of 10.09 *per cent* during the period 2012-16.

The freight earnings of ₹ 1,04,338.54 crore decreased by 4.46 *per cent* in 2016-17 as compared to ₹ 1,09,207.66 crore during 2015-16. The growth in freight earnings was negative as compared to previous years' growth of 3.23 *per cent*. This was

**Route-kilometre-The distance between two points on the railway irrespective of the number of lines connecting them viz., single line, double line, etc. Statistical data of route kms., no. of trains, no. of passengers and freight loading mentioned above are provisional.*

also below the CAGR of 8.60 *per cent* registered during 2012-16. The freight loading (in absolute terms) increased from 1008.09 Million Tonne (2012-13) to 1106.15 Million Tonne during 2016-17. Increase in freight loading by 0.42 *per cent* during 2016-17 as compared to freight loading of 2015-16 was less than the CAGR of 3.00 *per cent* achieved during 2012-16. The Net Tonne Kilometre (NTKM) in respect of revenue freight traffic of 620175 million NTKM in 2016-17 decreased by 5.24 *per cent* as compared to 654481 NTKM during 2015-16.

The passenger earnings of ₹ 46,280.46 crore increased by 4.51 *per cent* in 2016-17 as compared to ₹ 44,283.26 crore during 2015-16. This was below the CAGR of 12.23 *per cent* registered during 2012-16.

Total Working Expenditure during 2016-17 was ₹ 1,59,029.61 crore as compared to ₹ 1,47,835.93 crore during 2015-16.

Net surplus after meeting all revenue liabilities stood at ₹ 4,913.00 crore in 2016-17 as against ₹ 10,505.97 crore in 2015-16, even though no dividend was paid during 2016-17 as compared to ₹ 8,722.51 crore dividend paid during 2015-16. It was observed that in respect of Zonal Railways, the actual amount required to meet the expenditure on pension payments was ₹ 40,025.95 crore during the year. However, ₹ 35,000 crore (against the Budget Provision of ₹ 42,500 crore) was appropriated to Pension Fund. Thus, there was under provisioning of ₹ 5,025.95 crore under the Pension Fund, thereby understating the total working expenditure to that extent. Had the actual amount (₹ 40,025.95 crore) required to meet the expenditure on pension payments been appropriated, there would have been a negative balance of ₹ 112.95 crore (instead of surplus of ₹ 4,913 crore) leaving no surplus available for appropriation to the funds (DF, CF and Debt Service Fund).

The Operating Ratio represents the percentage of working expenses to traffic earnings and is an indicator of the efficiency in operations of IR. The Operating Ratio was 90.49 *per cent* in 2015-16, it deteriorated to 96.50 *per cent* in 2016-17. The Operating Ratio during the current year had deteriorated to an all-time low since 2000-01 when it was 98.34 *per cent*. Had the actual amount ₹ 40,025.95 crore required to meet the expenditure on pension payments of Zonal Railways been appropriated to the Pension Fund (instead of ₹ 35,000 crore), the total gross working expenditure of IR would have increased (by ₹ 5,025.95 crore) to ₹ 1,64,537.93 crore and the Operating Ratio would work out to 99.54 *per cent*. Thus Operating Ratio of 96.50 *per cent* does not reflect the true financial performance of the Railways.

Total Capital Expenditure (including expenditure under PPP) during 2016-17 was ₹ 1,08,290.14 crore as compared to ₹ 93,519.79 crore during 2015-16.

Railway funds closed at ₹ 2,576.81 crore at the end of 2016-17 (Railway Safety Fund ₹ 23.26 crore, Development Fund ₹ 402.63 crore, Pension Fund ₹ 594.76 crore, Debt Service Fund ₹ 800.23, Depreciation Reserve Fund ₹ 450.50 crore and Capital Fund ₹ 305.43 crore) against the fund balance of ₹ 10,806.68 crore in 2015-16 registering a decrease of ₹ 8229.87 crore. The decrease in fund balances was

mainly due to more expenditure from Pension Fund, Capital Fund and Debt Service Fund in comparison to amount credited in the funds during the year. Non-crediting of interest was also one of the reasons for decrease in funds balances. Further, the contribution to the DRF was not made as per requirement despite there being a huge backlog of over aged assets amounting to ₹ 47,679 crore in the railway system required to be replaced for safe running of trains.

Indian Railways was unable to meet its operational cost of passenger and other coaching services. During 2015-16, there was a loss of ₹ 36,286.33 crore on passenger and other coaching services. The freight services earned a profit of ₹ 42,426.63 crore which indicated that 85.53 *per cent* of the profit from freight traffic was utilized to compensate the loss on operation of passenger and other coaching services. The above issues have regularly been highlighted in the preceding Reports of Comptroller and Auditor General of India - Union Government (Railways) - Railways Finances.

IR is authorized for expenditure through operation of 16 Grants comprising of 15 Revenue Grants (Grants number 1 to 15) and one Capital Grant (Grant No. 16). There were savings of 13.15 *per cent* (₹ 31,927.91 crore) under revenue grants and savings of 4.97 *per cent* (₹ 5,926.31 crore) under capital grant against the sanctioned provisions available in 2016-17. However, the savings of ₹ 31,927.91 crore under revenue grants were only notional and reflect over provisioning disregarding the realistic flow of revenue.

Railways incurred excess expenditure of ₹ 33.13 crore (Voted ₹ 22.42 crore and Charged ₹ 10.71 crore) during the year 2016-17. The excess expenditure does not augur well for fiscal prudence besides undermining Parliamentary control. The excesses over the budgetary sanction require regularization by Parliament under Article 115 (1) of the Constitution of India.

Misclassification of expenditure from one revenue grant to another and also from revenue to capital grant and vice-versa and cases of misclassification of expenditure from Voted and Charged were also identified in audit. Some instances of such misclassification of expenditure have been given in the report. The Public Accounts Committee in its various reports has expressed serious concern over large number of misclassification occurring in the Accounts of Railways and despite repeated assurances given by the Ministry of Railways in their Action Taken Notes that necessary remedial measures have been taken to ensure that misclassification is curbed, numerous instances of misclassification are still being noticed by Audit.

Indian Railways, as a departmental commercial undertaking, though prepares Balance Sheet and Profit and Loss Account besides Block Account, does not disclose the significant accounting policies which form the basis of preparation of financial statements like accounting of fixed assets, depreciation, valuation of investments etc. The key information viz. capital works-in-progress, depreciated value of assets, investments in property, plant and machinery etc. are either absent or cannot be recognized easily from the financial statements.

The major source of assets creation in Indian Railways was Gross Budgetary Support (59.07 per cent) followed by Depreciation Reserve Fund (14.15 per cent) and Capital Fund (11.69 per cent) of the total assets created.

Fixed Assets such as buildings, track structures etc. are not separately depicted in the Block Account. For maintaining transparency in the Accounts and disclosing the correct picture of all the fixed assets, the existing format of Block Account needs revision. The formats of Block Account and Balance Sheet have not been revised to distinctly exhibit the capital works-in-progress in Block Account, exhibition of the investments in the Balance Sheet etc.

Audit observed that no disclosure for the assets (rolling stocks) acquired through funding from Indian Railway Finance Corporation and projects executed under Extra Budgetary Resources (Institutional Finance) were made in the Block Accounts and Balance Sheets of the Zonal Railways and IR as well. Assets Registers, Land and Building Registers etc. were either not maintained in the Zonal Railways and Production Units or maintained but not updated to reflect the true value of assets created.

IR does not follow the system of disclosing the significant accounting policies which should form the basis of preparation of any Financial Statement such as Accounting of Fixed assets, Depreciation and provision of liability for pension etc. Balance Sheet of IR depicts Block Assets at their original cost and not at depreciated value. It is, however, reduced from its account at the time of replacement/renewal or condemnation without replacement. Thus, the value of block assets as depicted in the Balance Sheet did not represent the true written down value of the assets.

The system in vogue in IR is to set apart an adhoc sum towards contribution to DRF by charging off to the working expenses. The present policy results in under provisioning of depreciation and inadequate maintenance/replacement of assets. Existing policy of depreciation gives leverage to IR to manage Net revenue surplus at a desired level.

Recommendations

Recommendations on various aspects of Railways Finances are given below:

- *The Operating Ratio during 2016-17 had deteriorated to the lowest level of 96.50 per cent since 2000-01 when it was 98.34 per cent. When actual expenditure on pension payments is taken into account, the Operating Ratio works out to 99.54 per cent. Since, Operating Ratio is a direct indicator of the working of Railways; the Ministry of Railways should also look into the various innovative ways for revenue generation and closely monitor the expenditure.*
- *Ministry of Railways needs to revisit the passenger and other coaching tariffs so as to recover the cost of operations in a phased manner and reduce its losses in its core activities. The fixation of passenger fare and freight charges should be based on the cost involved so that it brings both*

rationality and flexibility in pricing considering the financial health of Railways and the current market scenario. There is hardly any justification for not fully recovering the cost of passenger services in case of AC 1st Class, First Class and AC 2-Tier. However, since one of the factors for non-recovering full cost from these classes could be issue of free and concessional fare passes/ tickets to various beneficiaries in good numbers, this practice needs to be scaled down.

- *Non-availability of sufficient funds in Depreciation Reserve Fund to replace the over aged assets is indicative of weak financial health of Indian Railways. The huge backlog of renewal and replacement of over aged assets in railway system needs to be addressed for safe running of trains.*
- *Total Capital grew from ₹ 1,83,488 crore as on 31 March 2013 to ₹ 3,12,635 crore as on 31 March 2017, total traffic handled declined from 7,27,610 million Net Tonne Kilometres to 7,01,813 million Net Tonne Kilometres respectively. Railways need to take measures to improve competitiveness of its services vis-à-vis Road and Air travel.*
- *Allocation should be realistic and on conservative side keeping in view the realistic assessment of revenue streams.*
- *Ministry of Railways should impress upon the budget controlling authorities for regular monitoring of expenditure.*
- *Internal control mechanism should be strengthened to reduce the instances of misclassification of expenditure.*
- *The unsanctioned expenditure should be controlled; administration should ensure all unsanctioned expenditure is regularised on priority.*
- *Indian Railways needs to ensure that Block Accounts and Balance Sheets of Zonal Railways and Production Units reflect the true value of the assets duly supported by Assets Registers. Preparation of Assets Registers should be made mandatory for each Zonal Railways and Production Units.*
- *Indian Railways should follow the system of disclosing the significant accounting policies forming the basis of preparation of financial statements such as accounting of fixed assets, depreciation, investments etc.*
- *Ministry of Railways needs to make provision for depreciation in a more scientific method by adopting relevant accounting policies.*

Chapter 1 State of Finances

This chapter provides a broad perspective on the finances of the Indian Railways (IR) during 2016-17 and analyses critical changes in the major financial indicators with reference to the previous year as well as the overall trend. The base data for this analysis is the Finance Accounts of the IR, which is a document that is compiled annually for incorporation in the Union Government Finance Accounts. In addition, data from authentic government reports¹ have also been used to analyse performance of IR during 2016-17.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 (a) below presents the summary of IR's fiscal transactions during 2015-16 and 2016-17.

Table 1.1 (a) Summary of Capital and Revenue Expenditure of IR

(₹ in crore)

Sl. No.	Details	Actual 2015-16	Budget Estimates 2016-17	Revised Estimates 2016-17	Actual 2016-17
1.	Capital Expenditure (Gross Budgetary Support, Internal Resources and Extra Budgetary Resources)	93,519.79	1,21,000	1,21,000	1,08,290.14*
2.	Revenue Expenditure	1,68,379.61	1,89,270.64	1,72,305	1,65,382.49#

*Details are given in Para 1.9. # Details are given in Para 2.1.

Table 1.1 (b) Summary of Revenue Receipts and Revenue Expenditure of IR

(₹ in crore)

Sl. No.	Details	Actual 2015-16	Budget Estimates 2016-17	Revised Estimates 2016-17	Actual 2016-17
1	Passenger Earnings	44,283.26 (4.96)	51,012.00	48,000.00	46,280.46 (4.51)
2	Freight Earnings	1,09,207.66 (3.23)	1,17,932.75	1,08,900.00	1,04,338.54 (-4.46)
3	Other Coaching Earnings ²	4,371.48 (9.34)	6,184.80	5,000.00	4,312.00 (-1.36)
4	Sundry Earnings ³	5,928.55 (16.41)	9,590.29	10,100.00	10,368.04 (74.88)
5	Suspense	542.56	100.00	155.00	-6.84
6	Gross Traffic Receipts ⁴ (Item No.1 to 5)	1,64,333.51 (4.86)	1,84,819.84	1,72,155.00	1,65,292.20 (0.58)
7	Net Ordinary Working Expenditure ⁵	1,07,735.93 (1.64)	1,23,560.00	1,22,760.00	1,18,829.61 (10.30)
8	Appropriation to				
	Depreciation Reserve Fund	5,600.00 (-27.97)	3,200.00	5,200.00	5,200.00 (-7.14)
	Pension Fund	34,500.00 (18.05)	42,500.00	35,000.00	35,000.00 (1.45)

¹Budget documents, Annual Statistical Statements of Indian Railways.

²Other coaching earnings from transportation of parcels, luggage and post office mail etc.

³Sundry Earnings from renting, leasing of building, catering services, advertisements, maintenance of sidings and level crossing, re-imbusement of loss on strategic lines etc.

⁴Gross Traffic Receipts-Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR.

⁵Operating expenses of IR.

Sl. No.	Details	Actual 2015-16	Budget Estimates 2016-17	Revised Estimates 2016-17	Actual 2016-17
9	Total Working Expenditure ⁶ (Item No.7 and Item No. 8)	1,47,835.93 (3.38)	1,69,260.00	1,62,960.00	1,59,029.61 (7.57)
10	Net Traffic Receipts (Item No.6 – Item No. 9)	16,497.58 (20.29)	15,559.84	9,195.00	6,262.59 (-62.04)
11	Miscellaneous Receipts ⁷	4,046.09 (-6.05)	4,450.80	150.00	90.29 (-97.77)
12	Miscellaneous Expenditure ⁸	1,315.20 (11.19)	1,800.00	1,650.00	1,439.88 (9.48)
13	Net Miscellaneous Receipt (Item No. 11 – Item No. 12)	2,730.90	2,650.80	-1,500.00	-1,349.59
14	Net Revenue (Item No.10 and Item No.13)	19,228.48 (14.19)	18,210.64	7,695.00	4,913.00 (-74.45)
15	Dividend Payable to General Revenues	8,722.51 (-4.92)	9,731.29	-	-
16	Net Surplus (Item No. 14 – Item No.15)	10,505.97 (37.07)	8,479.35	7,695.00	4,913.00 (-53.24)
17	Surplus available for appropriation to				
	Development Fund	1,219.74 (-11.29)	2,515.00	2,515.00	2,515.00 (106.19)
	Capital Fund	5,798.24 (-6.98)	5,750.00	5,180.00	2,398.00 (-58.64)
	Debt Service Fund	3,487.98 (6,057.73)	214.35	0	0

Source: Explanatory Memorandum on Railway Budgets for 2015-16 and 2016-17 and Accounts for 2016-17.

Note: Figures in brackets represent the increase/decrease in percentage over previous year.

1.2 Fiscal Transactions in 2016-17-An overview

1.2.1 Gross Traffic Receipts (GTR)

GTR increased marginally by 0.58 per cent during 2016-17 vis-à-vis 2015-16 as compared to 4.86 per cent growth achieved during 2015-16. The muted growth in GTR was mainly due to shortfall in freight earnings as compared to the previous year. The growth rate of sundry earnings (74.88 per cent) was, however, higher in comparison to previous year.

1.2.2 Net Ordinary Working Expenditure (OWE)

Net OWE increased by 10.30 per cent in current year as compared to growth rate of 1.64 per cent recorded during 2015-16. Seventh Pay Commission could be one of the reasons for growth in Net OWE.

1.2.3 Total Working Expenditure (TWE)

The TWE during the year was ₹ 1, 59, 029.61 crore. It was observed that in respect of Zonal Railways (excluding Production Units and Miscellaneous Establishments), the actual expenditure on pension payments as incurred from Pension Fund was ₹ 40,025.95 crore during the year. However, only ₹ 35,000 crore

⁶Operating expenses and appropriation to Depreciation Reserve Fund and Pension Fund

⁷Miscellaneous Receipts comprise of sale of tender documents, liquidated damages and receipts by Railway Recruitment Board etc.

⁸Miscellaneous Expenditure comprise of expenditure on Railway Board, Surveys, Research, Designs and Standards Organization, Other Miscellaneous Establishments of IR, Statutory Audit etc.

(against the Budget Provision of ₹ 42,500 crore) was appropriated to Pension Fund. Thus, there was under provisioning of ₹ 5,025.95 crore under the Pension Fund, thereby understating the TWE to that extent. Had the actual amount (₹ 40,025.95 crore) required to meet the expenditure on pension payments been appropriated, there would have been a negative balance of ₹ 112.95 crore (instead of surplus of ₹ 4,913 crore).

1.2.4 Net Revenue

Net revenue in the current fiscal year decreased by 74.45 *per cent* as compared to the previous year.

1.2.5 Dividend Payment

Dividend payable to the Government of India (GoI) is based on the Capital-at-charge advanced through gross budgetary support. Railway Convention Committee (RCC) while discussing the rate of dividend for the year 2016-17 recommended that the Rate of Dividend payable by Railways to the General Revenues for the year 2016-17 be waived off purely as a one-time move. However, after merger of Railway Budget with General Budget from 2017-18, the GoI has decided the Railways will get exemption from payment of Dividend to General Revenues and its Capital-at-charge would stand wiped off with effect from 2017-18. Hence, no dividend was paid during 2016-17.

1.2.6 Net Surplus available for appropriation

Generation of Net surplus after meeting all revenue liabilities decreased by 53.24 *per cent* in the current year. Net Surplus decreased to ₹ 4,913.00 crore in 2016-17 as compared to ₹ 10,505.97 crore in 2015-16. The Net Surplus was also lower than the Budget Estimates (₹ 8,479.35 crore) by 42.06 *per cent*.

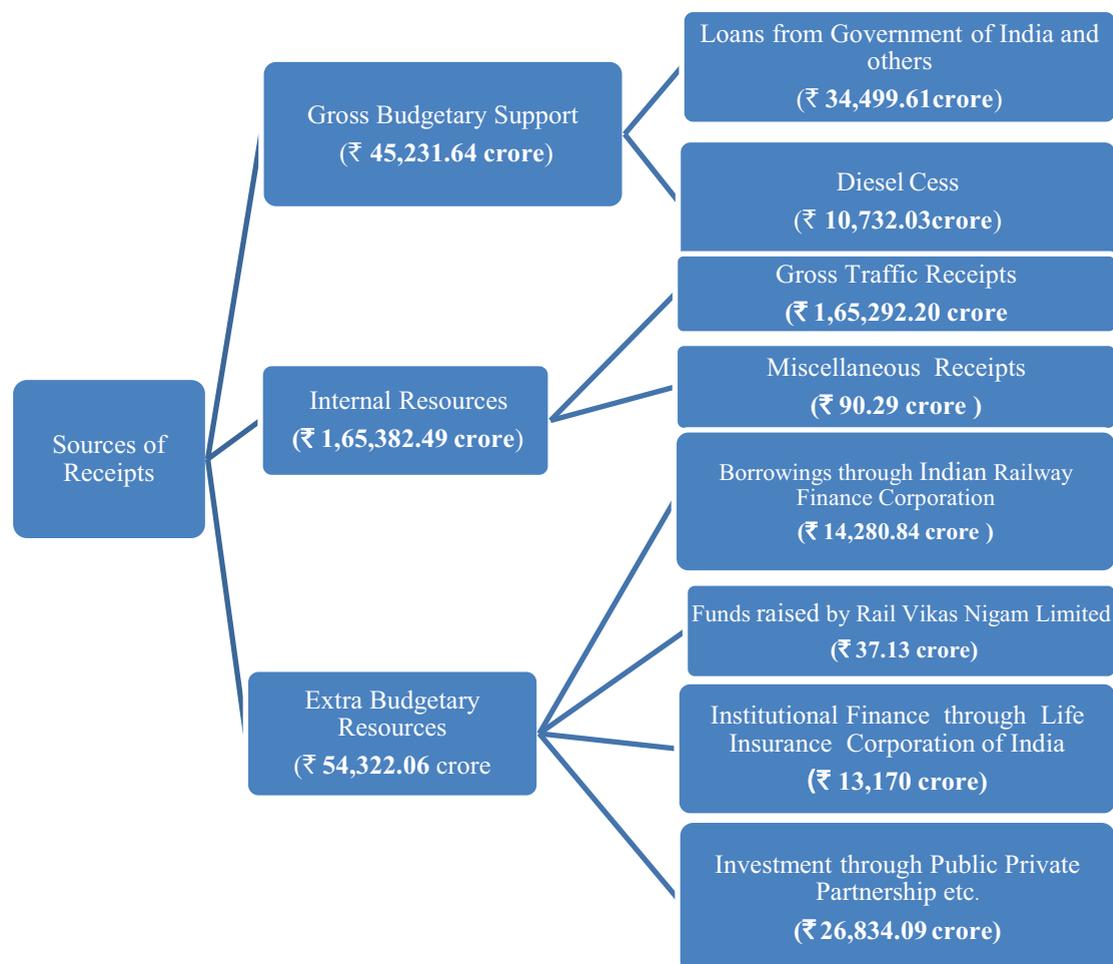
The Net Surplus of ₹ 4,913.00 crore was appropriated to Development Fund (₹ 2,515.00 crore) and Capital Fund (₹ 2,398.00 crore) in the year 2016-17. No funds were appropriated to Debt Service Fund during the current year though an amount of ₹ 214.35 crore was envisaged in the Budget Estimates.

Had the actual amount (₹ 40,025.95 crore) required to meet the expenditure on pension payments of Zonal Railways been appropriated to the Pension Fund (instead of ₹ 35,000 crore), there would have been a negative balance of ₹ 112.95 crore (instead of surplus of ₹ 4,913 crore) leaving no surplus available for appropriation to the funds (DF, CF and Debt Service Fund).

1.3 Resources of IR

The main sources of receipts of IR were as follows:

Figure 1.1: Sources of Receipts

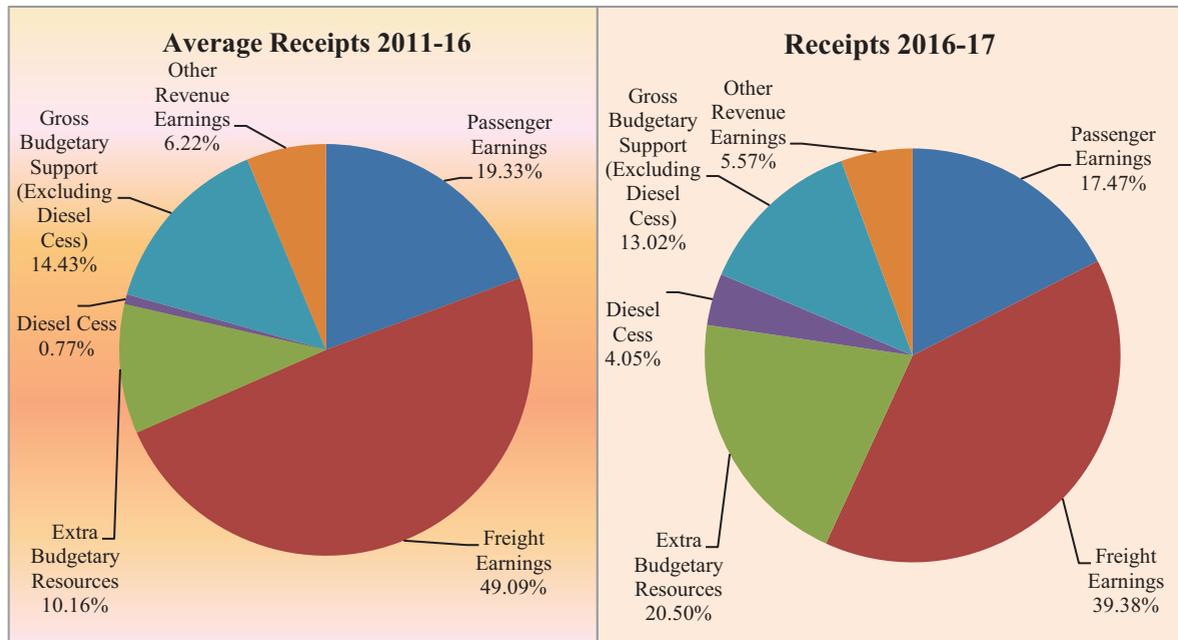


The Total Revenue Receipts (GTR and Miscellaneous Receipts) from internal resources decreased by 1.78 *per cent* during 2016-17 (Refer Figure 1.3) against the Compound Annual Growth Rate (CAGR)⁹ of 10.09 *per cent* during 2012-16. The Gross Budgetary Support (GBS)¹⁰ also decreased by 1.45 *per cent* during 2016-17 against CAGR of 13.20 *per cent* during 2012-16, while Extra Budgetary Resources (EBR) increased by 36.53 *per cent* during 2016-17 against CAGR of 37.99 *per cent* during 2012-16.

⁹Rate of growth over a period of years taking into account the effect of annual compounding.

¹⁰Gross Budgetary Support (GBS) represents amount advanced by the GoI to Ministry of Railways (MoR) to finance capital expenditure.

Figure 1.2: Relative Share of various Resources of IR



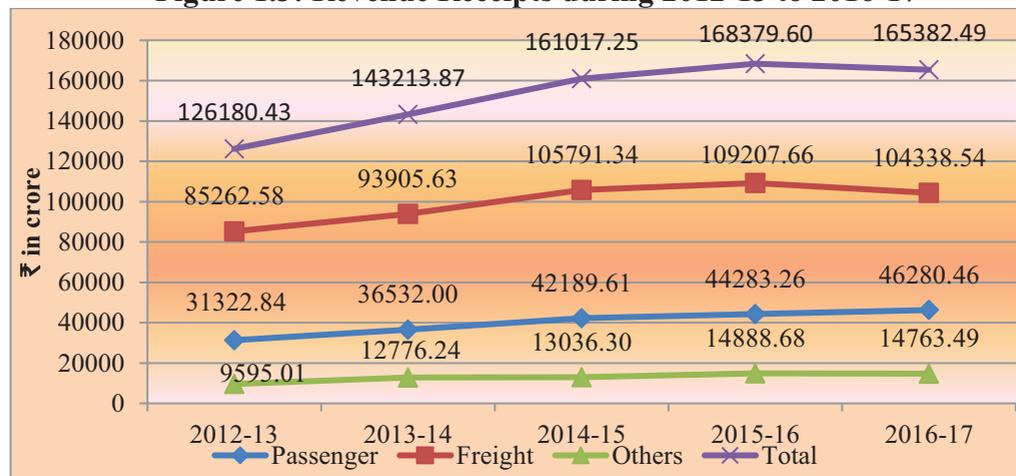
Note: Other Revenue Earnings include Other Coaching Earnings, Sundry Other Earnings, Suspense and Miscellaneous Receipts

Diagram at 1.2 shows that the largest resource of IR was freight sector, followed by extra budgetary resources. The share of extra budgetary resources and diesel cess increased whereas share of freight earnings, passenger earnings, GBS and other revenue earnings decreased in the current year as compared to average figures of receipts during 2011-16.

1.3.1 Revenue Receipts

The trend of total revenue receipts for the last five years is given in the Figure 1.3.

Figure 1.3: Revenue Receipts during 2012-13 to 2016-17



Note: Others include Other Coaching, Sundry Others, Suspense and Miscellaneous Receipts

Total Revenue Receipts increased at a CAGR of 10.09 per cent during 2012-16, however, there was shortfall of 1.78 per cent in the Total Revenue Receipts during year 2016-17.

The trend of growth rates of different segments of revenue receipts are discussed in the succeeding paragraphs.

1.3.1.1 Freight Earnings

Trend of freight loading and freight earnings of IR for the last five years ended 31 March 2017 are shown in the Figure 1.4.

Figure 1.4: Annual Rate of Growth of Freight Earnings and Freight Loading

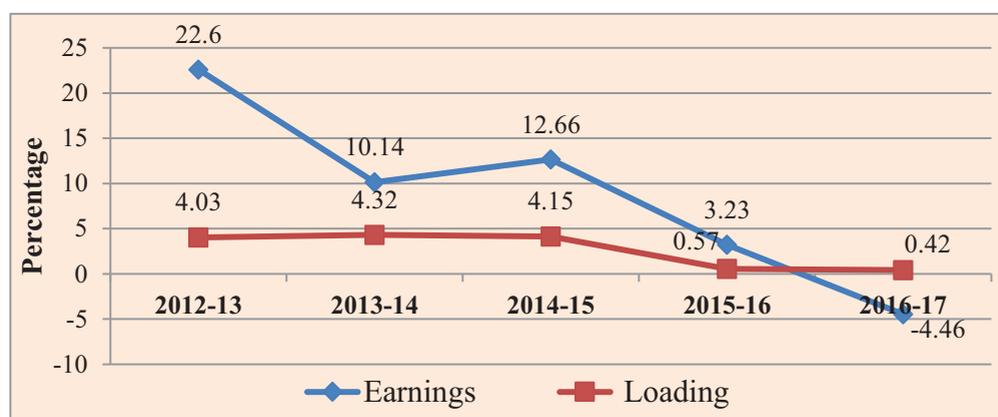


Figure 1.4 indicates a decrease in the annual growth of freight loading in the current year. The annual incremental increase in loading (in absolute terms) dropped from 39.04 Million Tonne (2012-13) to 4.64 Million Tonne (2016-17) during the last five years. Increase in freight loading by 0.42 *per cent* during 2016-17 was less than the CAGR of 3.00 *per cent* achieved during 2012-16. The growth in freight earnings was negative (i.e. -4.46 *per cent*) as compared to previous years' growth of 3.23 *per cent*. The growth rate of Net Tonne Kilometre (NTKM) was negative (i.e.-5.24 *per cent*) in current year (Table No.1.2).

In 2016-17, freight earnings decreased by 4.46 *per cent* over the previous year against the CAGR of 8.60 *per cent* achieved during 2012-16. The status of freight services statistics are given in the Table No. 1.2:

Table 1.2 Freight Services Statistics

Year	Loading (Million Tonne)	NTKM ¹¹ (in million) (Revenue Freight Traffic only)	Earnings (₹ in crore)	Average lead (in kilometre)	Rate per tonne per km (in paise)
2012-13	1008.09 (4.03)	649645 (-2.69)	85,262.58 (22.60)	644	131.24 (25.99)
2013-14	1051.64 (4.32)	665810 (2.49)	93,905.63 (10.14)	633	141.04 (7.46)
2014-15	1095.26 (4.15)	681696 (2.39)	1,05,791.34 (12.66)	622	155.19 (10.03)
2015-16	1101.51 (0.57)	654481 (-3.99)	1,09,207.66 (3.23)	594	166.86 (7.52)
2016-17	1106.15 (0.42)	620175 (-5.24)	1,04,338.54 (-4.46)	561	168.24 (0.83)

Source- Indian Railways Annual Statistical Statements (Statement No.13-Goods Revenue Statistics)

Note: (i) Figures in bracket represent percentage increase over previous year.

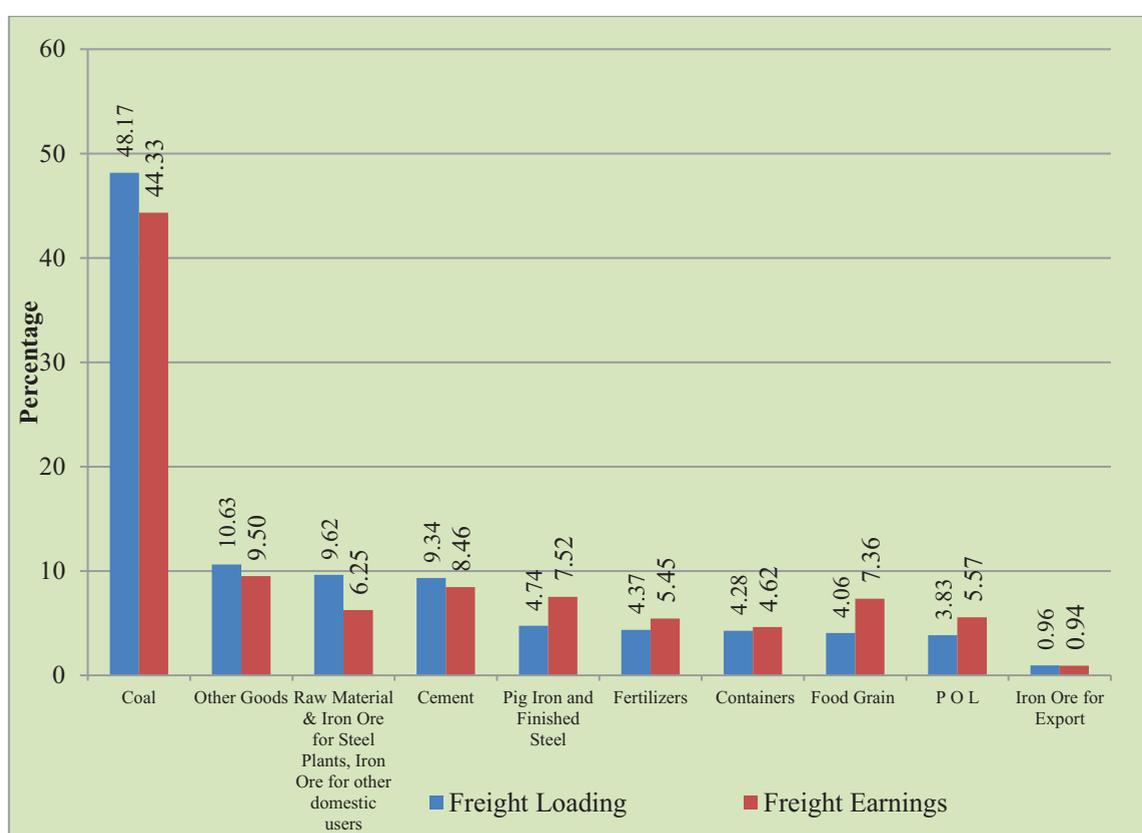
(ii) Figures of 2016-17 (except Earnings) are provisional.

¹¹NTKM-Net Tonne Kilometre-Unit of measure of freight traffic which represent the transport of one tonne goods (including the weight of any packing but excluding the weight of the vehicle used for transport) over a distance of one kilometre.

During 2016-17, freight loading was 1,106.15 Million Tonnes (MT) as compared to the loading of 1,101.51 MT during 2015-16. It was seen that the growth rate of freight loading during 2016-17 increased at the rate of 0.42 *per cent*. However, growth rate of NTKM during 2016-17 was negative (i.e. -5.24 *per cent*). The growth rate of Rate per tonne per kilometre over the previous year was 0.83 *per cent* against the growth rate of 7.52 *per cent* achieved in 2015-16. The growth rate of freight earnings during the current year was negative (i.e. -4.46 *per cent*) against the growth rate of 3.23 *per cent* recorded in 2015-16. Due to lower growth rate of loading and negative growth rate of NTKM, the average lead (average haul of a tonne of freight) declined from 594 km in 2015-16 to 561 km in 2016-17.

Share of major commodities in loading and earnings are given in the bar chart (Figure 1.5).

Figure 1.5: Major Commodity wise share of loading and earnings (2016-17)



Note-Figures of Loading and Earnings (commodity wise) for 2016-17 are provisional.

As compared to 2015-16, the major shortfall in the freight loading during 2016-17 was in commodities: Coal (declined from 551.52 MT in 2015-16 to 532.83 MT in 2016-17 – a decline of 3.39 *per cent*), Cement (declined from 105.35 MT in 2015-16 to 103.29 MT in 2016-17 – a decline of 1.96 *per cent*), Fertilizers (declined from 52.23 MT in 2015-16 to 48.34 MT in 2016-17 – a decline of 7.45 *per cent*), Food Grains (declined from 45.63 MT in 2015-16 to 44.86 MT in 2016-17 – a

decline of 1.69 per cent) and POL (declined from 43.24 MT in 2015-16 to 42.42 MT in 2016-17 – a decline of 1.90 per cent).

Coal constituted 45 per cent of Railways total loading. The freight earnings of coal declined from ₹ 49,305.85 crores during 2015-16 to ₹ 45,228.57 crore during 2016-17 registering a decline of 8.27 per cent.

MoR has stated that the bulk of the coal is used for power generation in thermal power plants and coal transportation by railways is closely linked to the demand from the power sector. The main reasons for decline in loading of coal was due to over capacities in power sector and operation of new power plants near coal mines, reduction in imports of coal by hinterland based power plants and reduced imports of coking coal in 2016-17 by steel sector due to higher international prices.

MoR had admitted that the freight rates are very high (average cost of service was ₹ 0.99 per ten kilometres whereas Railways were charging ₹ 1.60 per ten kilometres) which is used for cross-subsidising the passenger traffic where Railway is charging around 50 per cent of the cost of services. Thus, due to high rates the freight traffic is moving to road.

1.3.1.2 Passenger Earnings

Key performance indicators of passenger services are tabulated in Table 1.3.

Table 1.3 Passenger Services Statistics

Year	No. of Passenger (in millions)			Passenger Kilometre (in million)	Earnings (₹ in crore)	Average lead (in kilometre)	Average earnings per passenger per kilometre (in paise)
	Non- suburban	Suburban	Total				
2012-13	3944.15 (2.53)	4476.56 (2.26)	8420.71 (2.39)	1098103 (4.93)	31,322.84 (10.89)	130.41	28.52 (5.68)
2013-14	3844.88 (-2.52)	4552.18 (1.69)	8397.06 (-0.28)	1140412 (3.85)	36,532.00 (16.63)	135.81	32.03 (12.30)
2014-15	3719.09 (-3.27)	4505.03 (-1.04)	8224.12 (-2.06)	1147190 (0.59)	42,189.61 (15.49)	139.49	36.78 (14.80)
2015-16	3648.47 (-1.90)	4458.86 (-1.02)	8107.33 (-1.42)	1143039 (-0.36)	44,283.26 (4.96)	140.99	38.74 (5.34)
2016-17	3549.67 (-2.71)	4566.43 (2.41)	8116.10 (0.11)	1149834 (0.59)	46,280.46 (4.51)	141.67	40.25 (3.89)

Source-Indian Railways Annual Statistical Statements (Statement No.12-Passenger Revenue Statistics)

Note: (i) Figures in bracket represent percentage increase over previous year.

(ii) Figures for 2015-16 (except No. of Passengers and Earnings) are revised figures.

(iii) Figures for 2016-17 (except Earnings) are provisional.

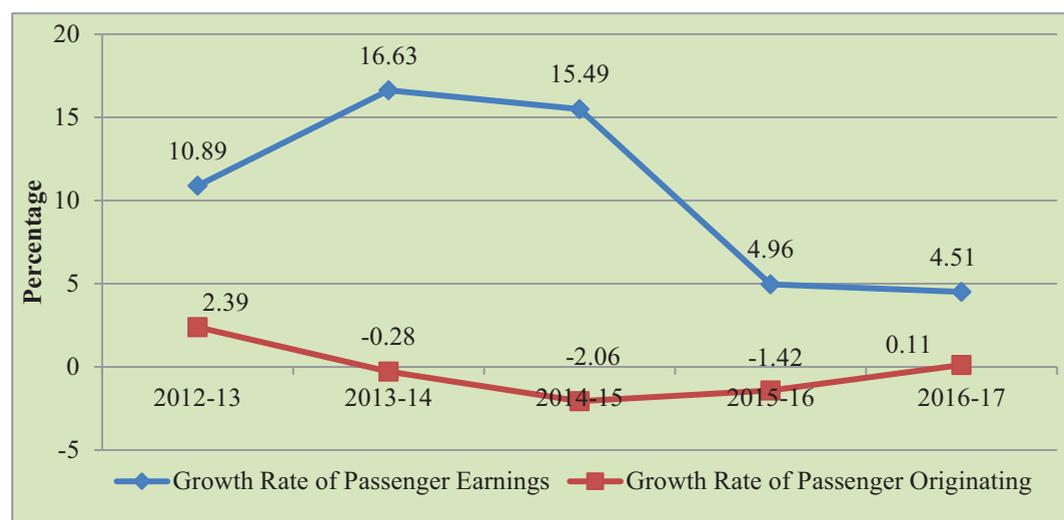
During 2016-17, the annual growth rate of passenger originating improved by 0.11 per cent over the previous year. During 2016-17, passenger originating was 8,116.10 Millions against the projected passenger originating of 8,182 Millions in the Budget Estimate. Thus, number of passengers was short by 0.81 per cent over the Budget Estimate (2016-17). There was shortfall of 4.86 per cent in non-suburban category and growth of 2.59 per cent in suburban category in passenger originating.

It was seen that average earnings per passenger per kilometre increased from 38.74 paise in 2015-16 to 40.25 paise in 2016-17. The growth rate of average earnings per

passenger per kilometre was 3.89 *per cent* as compared to previous year's growth rate of 5.34 *per cent*. Though, the passenger tariffs have been revised upwardly in the recent past, still IR is incurring losses¹² every year on passenger and other coaching services.

The growth in earnings from Passenger traffic and in Passengers Originating during the last five years (2012-13 to 2016-17) is shown in Figure 1.6.

Figure 1.6: Growth Rate of Passenger Originating and Passenger Earnings



In 2016-17, the earnings from passenger traffic increased by 4.51 *per cent* over the previous year (increase of 4.96 *per cent*) against the CAGR of 12.23 *per cent* during 2012-16. There was marginal growth of 0.11 *per cent* in passengers originating in 2016-17 over the previous year. However, there has been declining trend in the number of passenger originating during last five years. As compared to 2012-13, (8420.71 million passengers originating) there was decline of 3.62 *per cent* in the passengers originating during 2016-17.

1.3.1.3 Sundry Earnings and Other Coaching Earnings

Sundries and other coaching earnings constituted 8.88 *per cent* of the GTR in the current year. It increased by 42.52 *per cent* in 2016-17 against the growth rate of 13.30 *per cent* recorded in 2015-16. Analysis in audit revealed that earnings from catering departments, reimbursement of operating loss on strategic lines, rent/leasing of land, dividend etc. from PSUs, interest and maintenance charges of sidings etc. increased whereas earnings from right of way leave facility for others, advertisements, overhead charges and profit recovered on work done for outside parties, receipt from recruitment cell etc. decreased in the current year as compared to the previous year.

¹²As per Summary of End Results Coaching Services Profitability/Unit Costs prepared by Ministry of Railways

1.4 Unrealized Earnings¹³

Against the target for recovery of ₹ 100 crore during 2016-17 under unrealized earnings, IR accumulated ₹ 6.84 crore as unrealized earnings. The unrealized earnings rose from ₹ 1,665.42 crore in 2015-16 to ₹ 1,672.26 crore at the end of financial year 2016-17. A sum of ₹ 1,394.68 crore and ₹ 277.58 crore was outstanding under Traffic Suspense and Demand Recoverable respectively. The major portion of outstanding under Traffic Suspense was on account of unrecovered freight and other charges from Power Houses and State Electricity Boards (SEBs) amounting to ₹ 688.60 crore which constituted 49.37 per cent of the total Traffic Suspense, yet to be recovered. Major defaulters are shown in the Table 1.4.

Table 1.4-Outstanding dues against State Electricity Board

(₹ in crore)

Sl. No.	State Electricity Board / Power House	Outstanding dues as of 31 March 2016	Outstanding dues as of 31 March 2017	Increase (+)/decrease (-) during the year
1.	Punjab State Electricity Board (PSEB)	447.00	446.95	(-) 0.05
2.	Delhi Vidyut Board (DVB)	114.28	114.28	-
3.	Maharashtra State Electricity Board (MSEB)	59.67	39.81	(-) 19.86
4.	Rajasthan State Electricity Board (RSEB)	39.79	39.55	(-) 0.24
5.	Uttar Pradesh State Electricity Board (UPSEB)	32.61	31.35	(-) 1.26
6.	West Bengal State Electricity Board (WBSEB)	19.29	3.40	(-) 15.89

Source-Statement of dues recoverable from State Electricity Board/Power Houses

The Ministry of Railways needs to enhance its efforts to realize the old outstanding dues from SEB's.

1.5 Cross-Subsidization

1.5.1 Subsidy towards Passenger and other Coaching Services

IR was unable to meet its operational cost of passenger services and other coaching services. The Summary of End Results-Freight Services Unit Costs and Coaching Services Profitability/Unit Costs for the year 2015-16 published by the IR indicates that there was cross subsidization from freight earnings to passenger and other coaching earnings. Loss incurred by passenger and other coaching services increased from ₹ 23,643.68 crore in 2011-12 to ₹ 36,286.33 crore in 2015-16¹⁴.

The revenue forgone in passenger earnings due to concessions to various categories of passengers (viz. physically challenged persons, patients, senior citizens, Izzat MST, press correspondents, sport persons, war widows, etc.) was ₹ 1,602.94 crore during 2015-16 and ₹ 1,670.05 crore during 2016-17. In respect of Railway Passes

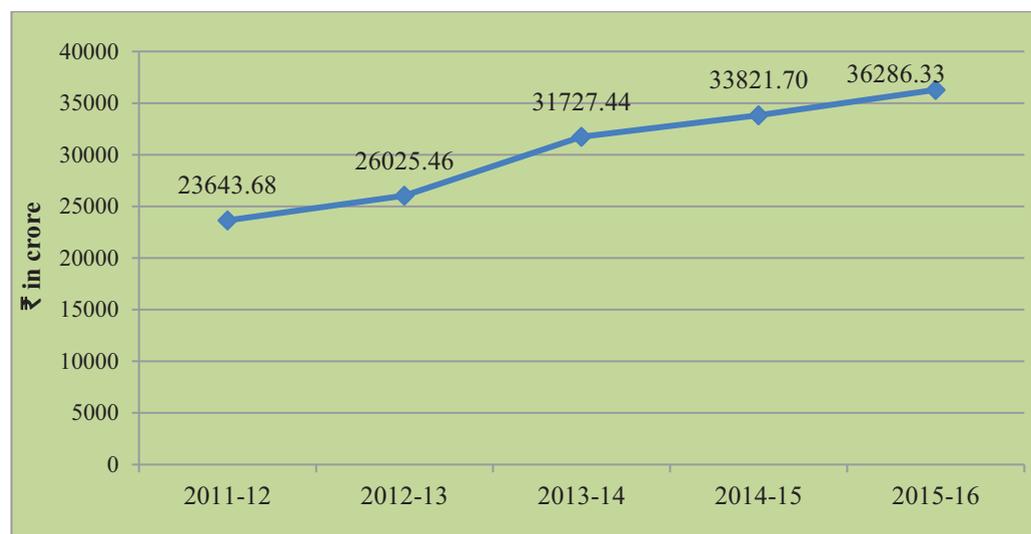
¹³Unrealized earnings on account of movement of traffic was classified as 'Traffic Suspense' whereas on account of rent/lease of building/land and maintenance charges of sidings etc. as 'Demand Recoverable'.

¹⁴Summary of End Results-Coaching Services-Profitability/Unit Costs for 2016-17 not compiled (December 2017).

to their serving/retired employees, neither the cost is computed nor any data of revenue foregone is maintained by the Railways.

The losses on passenger and other coaching services during the 2011-12 to 2015-16 are shown in the Figure 1.7(a).

Figure 1.7 (a): Losses on Passenger and other Coaching Services (2011-12 to 2015-16)



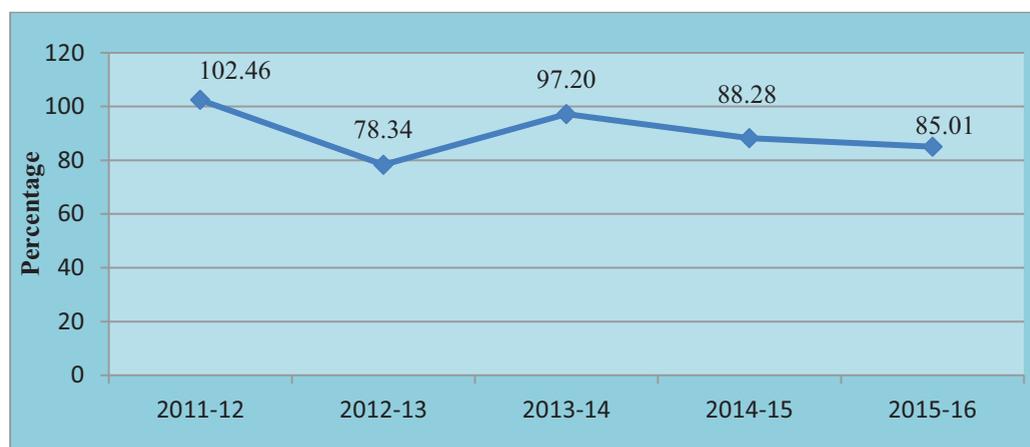
Thus, due to increase in the loss on passenger and other coaching services from ₹ 33,821.70 crore in 2014-15 to ₹ 36,286.33 crore in 2015-16, the cross subsidy from freight earnings towards passenger and other coaching services has increased in 2015-16 as compared to previous year. The gap in percentage of expenditure on passengers and other coaching services left unrecovered during the period of five years as of 31 March 2016 are shown in Figure 1.7(b).

Figure 1.7(b): Percentage of expenditure on Passenger and Other Coaching Services left uncovered



Figure 1.8 shows the percentage of profit on freight services, utilized to make up the loss on passenger and other coaching services.

Figure 1.8: Percentage of profit on freight earnings used to subsidize the passenger and other coaching services



It would be seen that the 85.53 per cent profit from freight traffic during 2015-16 (profit from freight traffic in 2015-16: ₹ 42,426.63 crore) was utilized to compensate the loss of ₹ 36,286.33 crore on operation of passenger and other coaching services of IR. IR has been able to retain only 14.47 per cent of the profit on freight earnings after subsidizing the loss on passenger services in 2015-16 as compared to 11.72 per cent in the previous year showing an improvement in the operational profit.

1.5.2 Operational losses of various Classes of Passenger Services

Table 1.5 gives the operational losses of various classes of passenger services during 2011-12 to 2015-16:

Table 1.5 Operational losses of various Classes of Passenger Services

Class of Passenger services	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
AC-Ist class	(-)38.78 (8.12)	(-)40.86 (7.48)	(-)47.39 (7.54)	(-) 127.49 (17.68)	(-) 175.79 (23.05)
Ist class	(-) 39.13 (32.14)	(-)61.36 (61.26)	(-)92.06 (75.82)	(-) 69.50 (74.71)	(-) 58.00 (81.03)
AC 2 Tier	(-) 438.83 (17.76)	(-)348.09 (12.53)	(-) 497.28 (15.26)	(-) 495.59 (13.32)	(-) 463.11 (12.01)
AC 3 Tier	499.33 (12.19)	494.99 (10.29)	410.67 (6.84)	881.52 (12.57)	898.06 (11.69)
AC Chair car	(-)13.29 (1.65)	(-)38.12 (4.00)	(-)148.47 (11.32)	(-) 142.26 (9.90)	(-) 5.58 (0.40)
Sleeper Class	(-) 6,531.75 (47.16)	(-)6,852.72 (45.00)	(-) 8,407.85 (44.57)	(-) 8,510.06 (41.50)	(-) 8,301.15 (38.65)
Second class	(-) 4,237.60 (36.06)	(-)5,167.53 (38.90)	(-)7,134.42 (44.75)	(-)7,642.13 (43.19)	(-) 8,569.77 (45.37)
Ordinary (All Class)	(-)8,893.12 (66.97)	(-)9,783.80 (67.78)	(-)11,105.24 (67.08)	(-) 11,673.80 (65.58)	(-) 13,237.74 (69.14)
EMU suburban services	(-) 2,813.95 (58.21)	(-) 3,365.47 (61.70)	(-) 4,027.14 (62.98)	(-) 4,679.11 (63.98)	(-) 5,124.74 (65.19)

Source-Summary of the End Results Coaching Services Profitability/Unit Costs

Note-1. Negative figures denote losses and positive figures denote profits on passenger services.

2. Figures in bracket represent percentage loss/profit.

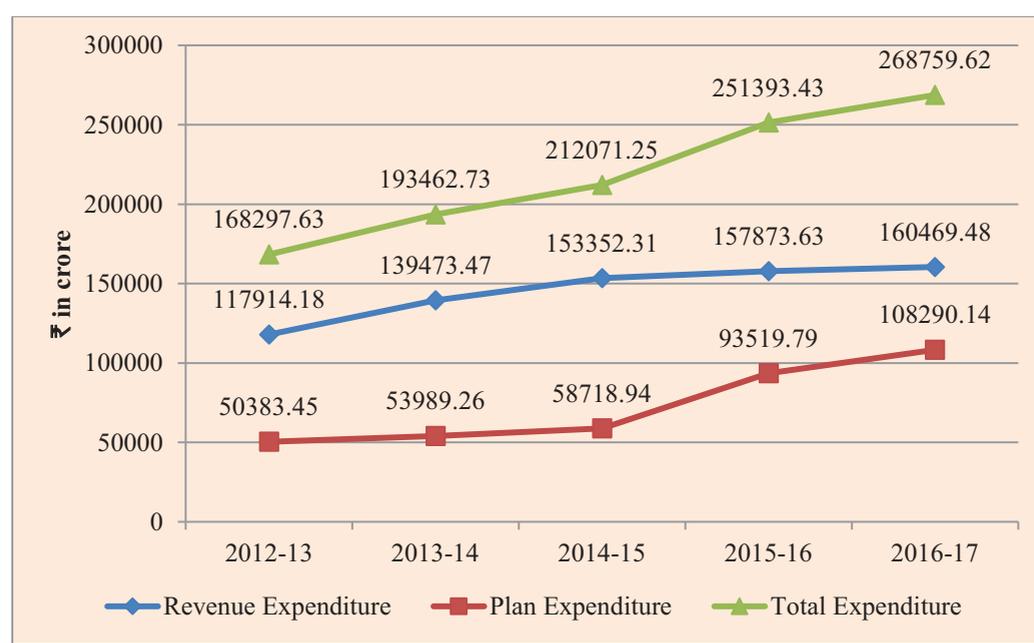
It is clear from the Table 1.5 that, except AC-3-Tier, all classes of train services have incurred losses during 2015-16 which means that AC-3-Tier segment only has recovered its operational cost.

The subsidy provided to both ordinary class and suburban services increased almost continuously in the last five years with subsidy on Ordinary Class being the maximum. The percentage of loss¹⁵ in various classes of passenger services ranged from 0.40 per cent (AC Chair Car) to 81.03 per cent (1stClass) with 65.19 per cent on EMU Suburban train services. One of the factors for non-recovering full cost from these classes could be issue of free and concessional fare passes/tickets to various beneficiaries in good numbers.

1.6 Application of Resources

The two main components of expenditure in IR are 'Revenue Expenditure' and 'Plan Expenditure'. Revenue expenditure includes ordinary working expenditure, and miscellaneous expenditure. The Total Expenditure grew from ₹ 2,51,393.43 crore in 2015-16 to ₹ 2,68,759.62 crore in 2016-17, registering an increase of 6.91 per cent. The Revenue expenditure* has increased by 1.64 per cent from ₹ 1,57,873.63 crore to ₹ 1,60,469.48 crore during the same period.

Figure 1.9: Plan and Revenue Expenditure in the last five years



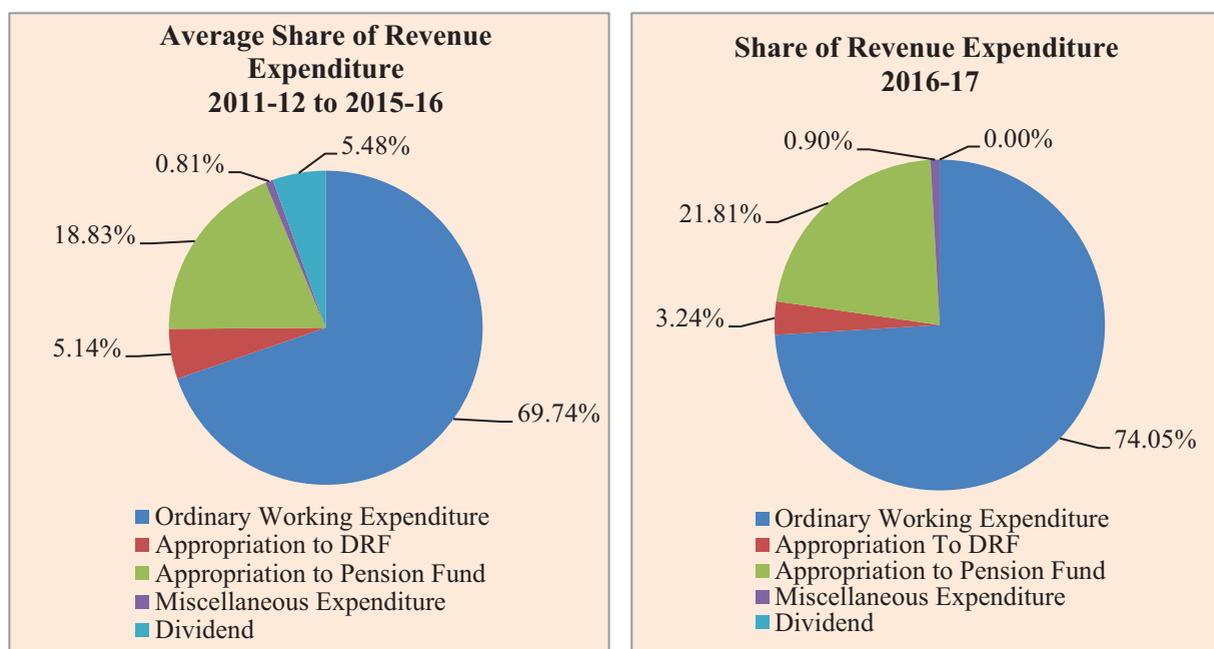
*Excluding amount of surplus appropriated to Development Fund, Capital Fund and Debt Service Fund (2012-13 - ₹8,266.25 crore, 2013-14 - ₹3,740.40 crore, 2014-15 - ₹7,664.94 crore, 2015-16 - ₹10,505.97 crore and 2016-17 ₹4,913.00 crore).

During 2016-17, the share of revenue expenditure to total expenditure decreased from 63 per cent (2015-16) to 60 per cent (2016-17) whereas plan expenditure increased from 37 per cent (2015-16) to 40 per cent (2016-17). A detailed analysis of plan expenditure is discussed in paragraph 1.10.

¹⁵Loss worked out on the basis of figures of Expenses and Earnings given in Summary of the End Results-Coaching Services Profitability/Unit Costs (2015-16).

1.6.1 Revenue Expenditure

Figure 1.10: Share of Revenue Expenditure in last five years

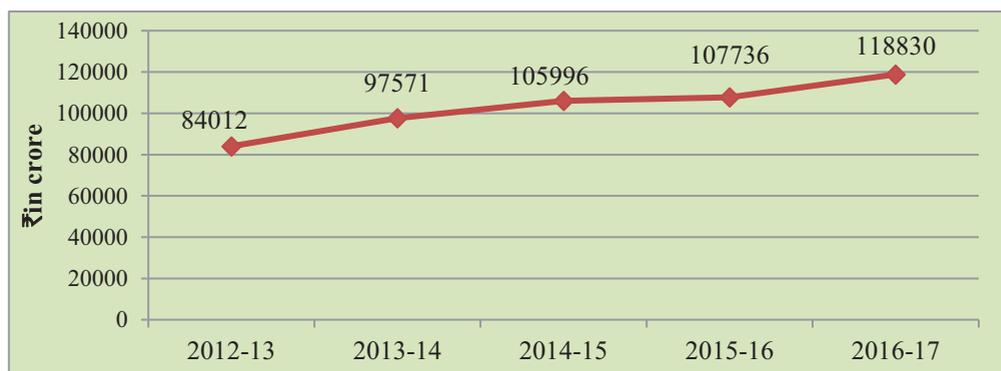


Ordinary Working Expenditure (OWE) comprises expenditure on day-to-day maintenance and operation of the IR i.e. expenditure on office administration, repairs and maintenance of track and bridges, locomotives, carriage and wagons, plant and equipment, operating expenses on crew, fuel, miscellaneous expenditure, pension liabilities etc.

The main component of total revenue expenditure was OWE which constituted 69.74 per cent of the total revenue expenditure on an average during 2011-16 and 74.05 per cent during 2016-17. Appropriation to DRF was decreased to 3.24 per cent in 2016-17 as compared to 5.14 per cent on an average during 2011-16. Appropriation to Pension Fund increased to 21.81 per cent in 2016-17 as compared to 18.83 per cent on an average during 2011-16 to meet the increased pension liabilities.

The trend in OWE over the last five years is shown in Figure 1.11:

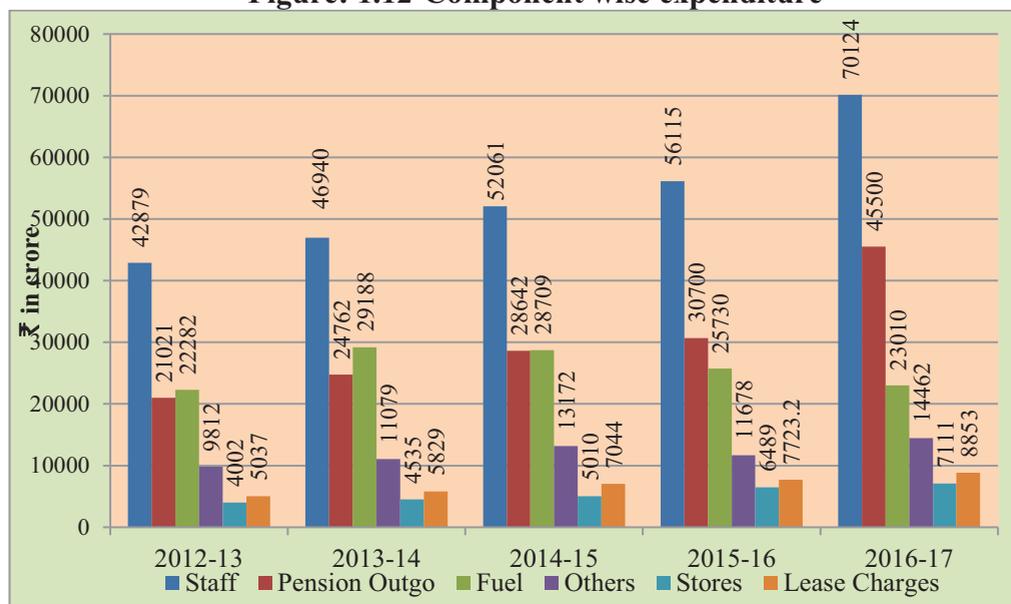
Figure: 1.11 – Growth of Ordinary Working Expenses (2012-13 to 2016-17)



OWE increased at a rate of 10.30 per cent during 2016-17 as compared to growth rate of 1.64 per cent in the previous year.

The break-up of working expenditure on IR under staff, fuel, lease charges, stores, others and pension outgo for the last five years is shown in the Figure 1.12.

Figure: 1.12-Component wise expenditure



Note-(i) Figures for 2016-17 are as per Budget Estimate.

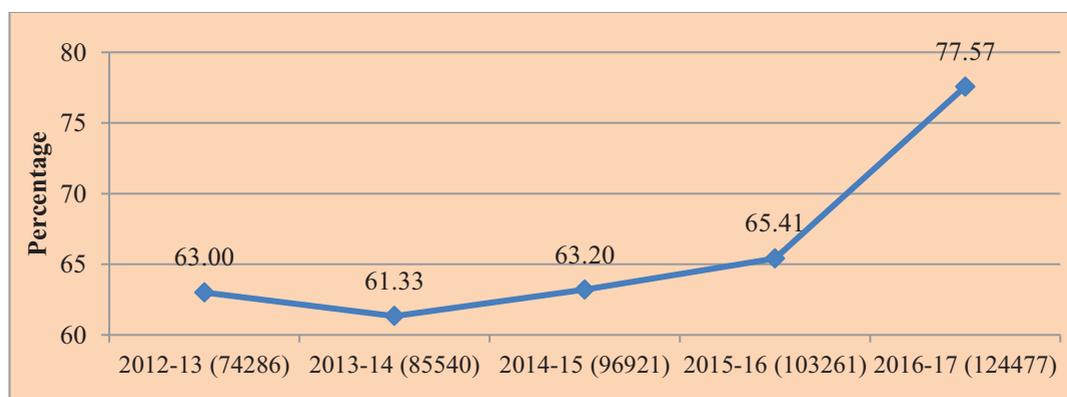
(ii) Figures for 2015-16 are revised figures (based on actuals).

Staff cost (including pension outgo) constituted around 68 per cent of the working expenses of the IR during the current year. There was spurt in the expenditure under staff and pension outgo presumably due to impact of Seventh Pay Commission.

1.6.2 Committed Expenditure

The committed expenditure of the IR consisted of staff cost, pension payments and lease hire charges on rolling stock.

Figure 1.13: Committed Expenditure as a percentage of Total Revenue Expenditure



Note- (i) Figures shown in bracket indicate Total Committed Expenditure in crore of rupees.

(ii) Figures for 2016-17 are as per Budget Estimate.

(iii) Figures of 2015-16 are revised figures (based on actuals).

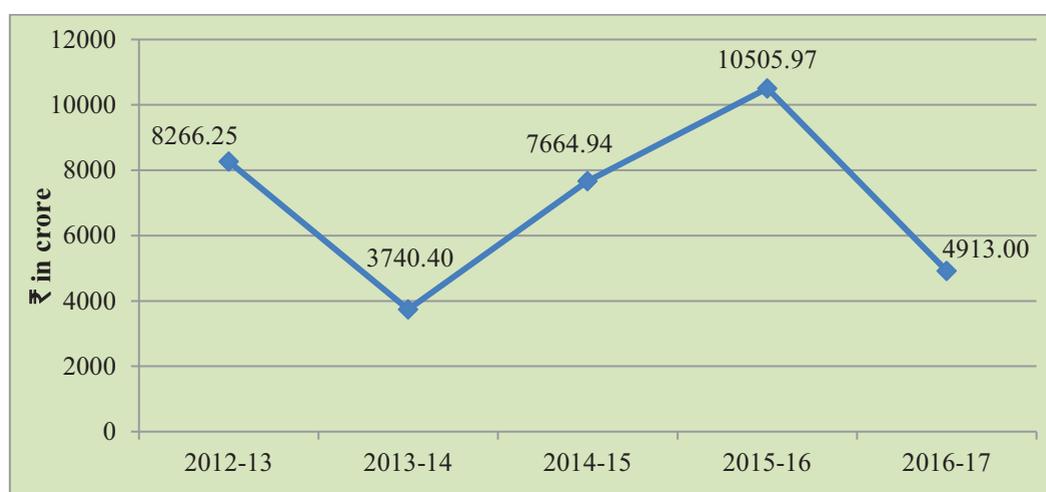
(iv) Committed Expenditure included dividend payment to general revenue for the year upto 2015-16

Percentage of committed expenditure to total revenue expenditure was 77.57 per cent in 2016-17. IR was left with 22.43 per cent of the total revenue expenditure to run their operations (Figure 1.13).

1.7 Revenue Surplus

Trend of net revenue surplus after meeting all revenue expenditure during the years 2012-13 to 2016-17 are shown in the Figure 1.14.

Figure: 1.14 Revenue Surplus



The net surplus which increased to ₹ 10,505.97 crore in 2015-16 declined to ₹ 4,913.00 crore in 2016-17. The decline in net surplus during 2016-17 was mainly due to negative growth rate of 4.46 *per cent* of freight earnings against 3.23 *per cent* growth rate in 2015-16, negative growth rate of 97.77 *per cent* of Miscellaneous Receipts as compared to the previous year and growth rate of TWE (7.57 *per cent*) being more than that of 2015-16 (3.38 *per cent*).

1.8 Efficiency Indices

The financial performance and efficiency in operations of an enterprise can best be measured from its financial and performance ratios. The relevant ratios in this regard for IR were 'Operating Ratio', 'Capital-Output Ratio' and 'Staff Productivity', which are discussed below:

1.8.1 Operating Ratio

Operating Ratio (OR) represents the percentage of working expenses to traffic earnings. The OR which was 90.49 *per cent* in 2015-16, deteriorated to 96.50 *per cent* in 2016-17 for IR. This was primarily due to the reason that working expenses grew at higher rate (7.63 *per cent*) as compared to previous year (3.40 *per cent*), while the traffic earnings grew at rate (0.92 *per cent*) less than the previous year rate (4.28 *per cent*). Audit observed that the Operating Ratio during the current year had deteriorated to the lowest level of 96.50 *per cent* since 2000-01 when it was 98.34 *per cent*.

OR of zonal railways during the last five years ended on 31 March 2017 is shown in the Table 1.6.

Table 1.6 Operating Ratio of Zonal Railways

(In percent)

S. No.	Zonal Railway	2012-13	2013-14	2014-15	2015-16	2016-17
1	Central	97.82	100.23	101.85	98.13	105.00
2	Eastern	178.86	176.76	177.27	180.56	165.27
3	East Central	92.19	99.58	95.24	90.28	101.83
4	East Coast	44.50	48.34	51.25	50.56	53.78
5	Northern	113.15	110.12	117.65	114.97	118.85
6	North Central	59.68	64.04	64.13	61.98	70.50
7	North Eastern	200.01	207.49	193.47	196.52	197.01
8	Northeast Frontier	178.39	193.08	187.08	185.71	130.45
9	North Western	88.97	98.58	90.18	91.15	95.17
10	Southern	130.59	132.18	128.98	134.89	147.83
11	South Central	79.63	84.13	76.03	78.71	86.24
12	South Eastern	70.50	72.54	73.62	71.15	73.46
13	South East Central	49.14	52.53	50.83	50.52	56.24
14	South Western	104.85	115.41	98.72	102.60	119.56
15	Western	89.84	91.74	86.51	88.72	103.00
16	West Central	68.18	71.06	63.56	64.38	73.90
17	Metro Railway/Kolkata	328.26	302.63	253.69	237.80	260.06
	Overall IR	90.19	93.60	91.25	90.49	96.50

Source-Indian Railways Appropriation Accounts-Part-I Review

There was improvement in the OR of Eastern and Northeast Frontier Railways whereas the same deteriorated in other zonal railways during the current year as compared to the previous year. OR of East Coast, North Central, North Western, South Central, South Eastern, South East Central and West Central Railways was less than 100 per cent during 2016-17. OR of Central, Eastern, East Central, Northern, North Eastern, Northeast Frontier, Southern, South Western, Western Railways and Metro Railway/Kolkata was more than 100 per cent during 2016-17 implying that their working expenditure was more than their traffic earnings. OR of the zonal railways namely Eastern, Northern, North Eastern, Northeast Frontier, Southern Railways and Metro Railway/Kolkata was more than 100 per cent continuously in the last five years.

Taking into account the actual amount of ₹ 40,025.95 crore required to be appropriated to the Pension Fund (instead of ₹ 35,000 crore), the working expenses of IR would have increased by ₹ 5,025.95 crore to ₹ 1, 64,537.93 crore instead of ₹ 1,59,511.98¹⁶ crore. Hence, OR of IR would have been at 99.54 per cent* instead of 96.50 per cent as mentioned above. Thus, the OR of 96.50 per cent does not reflect the true financial performance of the Railways.

**** Operating Ratio = Total Gross Working Expenses/ Total Gross Earnings x 100
i.e. ₹1,64,537.93 crore/ ₹1,65,299.04¹⁷ crore x 100 = 99.54 per cent.***

¹⁶ Total Working Expenditure (₹ 1,59,029.61 crore) less Suspense (₹ -482.37 crore) = Total Gross Working Expenses (₹ 1,59,511.98 crore)

¹⁷ Gross Traffic Receipts (₹1,65,292.20 crore) less Traffic Suspense (₹- 6.84 crore) = Total Gross Earnings (₹1,65,299.04 crore).

1.8.2 Capital Output Ratio (COR)

Capital Output Ratio (COR) indicates the amount of capital employed to produce one unit of output. Total Traffic in terms of NTKMs and Passenger Kilometres (PKMs) is considered as the output in the case of IR.

COR of IR during the last five years ended on 31 March 2017 is shown in the Table 1.7.

Table 1.7 Capital Output Ratio of IR

As on	Total Capital including investment from Capital Fund (₹ in Million)	Goods Traffic (NTKM) (in Million) (Revenue Freight Traffic only)	Passenger Traffic		Total Traffic (in Million NTKMs)	Capital at charge (in Paise) per NTKM
			Passenger Kilometres (in Millions)	Million NTKMs		
31-March-13	1,834,880	649,645	1,098,103	77,965	727,610	252
31-March-14	2,088,443	665,810	1,140,412	80,969	746,779	280
31-March-15	2,421,170	681,696	1,147,190	81,450	763,146	317
31-March-16	2,751,353	654,481	1,143,039	81,566	736,047	374
31-March-17	3,126,349	620,175	1,149,835	81,638	701,813	445

Source-Indian Railways Annual Statistical Statements

Note: Figures for the period as on 31 March 2016 are revised figures. Figures for 2016-17 except Capital including Investments from Capital Fund are provisional.

COR had increased from 252 paise (2012-13) to 445 paise (2016-17) indicating decrease in physical performance of the IR as compared to capital employed (Table 1.7). It continuously increased during last five years.

1.8.3 Staff Productivity

Staff productivity¹⁸ in case of IR is measured in terms of volume of traffic handled (in terms of NTKM in Million) per thousand employees. It decreased by 4.02 per cent from 2012-13 (596) to 2016-17 (572) of Open Line staff of all zonal railways. The deterioration in staff productivity over the last five years was due to decrease in NTKM (one NTKM is equivalent to transportation of one tonne goods excluding weight of vehicle over a distance of one kilometer).

Zone wise analysis of staff productivity revealed that during 2016-17, highest Staff Productivity of 1491 Million NTKM was achieved by East Coast Railway whereas Staff Productivity of 202.02 Million NTKM of Eastern Railway was the lowest during the same period.

1.9 Plan Expenditure

IR plays a crucial role in augmenting infrastructure for sustainable economic growth. To keep pace with the transport sector in general and to respond to the pressures of a buoyant economy, it is essential that its resources are used effectively. Creation of new assets, timely replacement and renewal of depleted assets which had outlived its usage, augmentation of network capacity were the activities carried out by the IR through their plan expenditure.

¹⁸Annual Statistical Statements of Indian Railways

IR's plan expenditure was financed from the GBS, internal resources¹⁹ and extra budgetary support i.e. market borrowing through Indian Railway Finance Corporation Limited (IRFC) for rolling stock and new network links by Rail Vikas Nigam Limited (RVNL).

During 2016-17, Extra Budgetary Resources (Institutional Finance)-EBR (IF)²⁰ funds amounting to ₹ 13,170 crore was received from IRFC (funds drawn initially by IRFC by issuing bonds to Life Insurance Corporation of India).

The Table 1.8 gives the sources of funds for the plan expenditure during the 12th Five year Plan (2012-13 to 2016-17):

Table 1.8 Sources of Plan Expenditure

(₹ in crore)

Source of Plan Expenditure	12 th Five Year Plan					
	2012-13	2013-14	2014-15	2015-16	2016-17	
	Actual	Actual	Actual	Actual	Budget Estimates	Actual*
Gross Budgetary Support ²¹	25,710.21 (51.03)	29,055.38 (53.82)	32,327.60 (55.05)	37,608.47 (40.21)	45,000.00 (37.19)	45,231.64 (41.77)
Internal Resources	9,531.31 (18.92)	9,709.00 (17.98)	15,347.24 (26.14)	16,845.31 (18.01)	16,675.00 (13.78)	10,479.84 (9.68)
Total (GBS and Internal Resources)	35,241.52 (69.95)	38,764.38 (71.80)	47,674.84 (81.19)	54,453.78 (58.23)	61,675.00 (50.97)	55,711.48 (51.45)
Extra Budgetary Resources (IRFC, RVNL, EBR-IF, PPP)	15,141.93 (30.05)	15,224.88 (28.20)	11,044.10 (18.81)	39,066.01 (41.77)	59,325.00 (49.03)	52,578.66 (48.55)
Grand Total	50,383.45	53,989.26	58,718.94	93,519.79	121,000.00	1,08,290.14

*Details are given in Para 1.1 (a) and in Para 2.1.

Note: Figures in brackets represent percentage to the total Plan expenditure

Source-Explanatory Memorandum on Railway Budgets and Appropriation Accounts

The share of GBS to the total plan expenditure increased from 40.21 per cent in 2015-16 to 41.77 per cent in 2016-17. The share of internal resources to total plan expenditure decreased from 18.01 per cent in 2015-16 to 9.68 per cent in 2016-17. Share of EBR increased from 41.77 per cent in 2015-16 to 48.55 per cent in current year. Decline in generation of internal resources resulted in greater dependence on GBS and EBR. During 2016-17, MoR obtained ₹ 14,280.84 crore from IRFC for rolling stock, ₹ 37.13 crore for doubling projects being executed by RVNL, ₹ 13,170 crore through EBR-IF for gauge conversion, doubling and railway electrification projects and ₹ 26,834.09 crore through Public Private Partnership (PPP) mainly for expenditure on new line projects, traffic facilities and road safety works etc. The actual expenditure through EBR-IF incurred during 2016-17 was ₹ 11,465.15 crore. Thus there was an unspent amount of ₹ 1,704.85 crore under EBR-IF.

Plan expenditure is broadly categorized under various Plan Heads as shown in the Table 1.9.

¹⁹Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund

²⁰Extra Budgetary Resources (Institutional Finance)-EBR (IF) was introduced in Railways in 2015-16

²¹Includes expenditure from Railway Safety Fund

Table 1.9 Category-wise Plan Expenditure

(*₹ in crore*)

Plan Heads	12 th Five Year Plan				
	2012-13	2013-14	2014-15	2015-16	2016-17
New Lines, Gauge Conversion, Doubling, Yard Remodelling, Traffic Facilities, Track Renewal, Bridge Work, Signalling and Telecommunication	16,721.19 (33.19)	18,532.34 (34.33)	21,984.62 (37.44)	36,638.42 (46.71)	36,246.12 (44.50)
Rolling Stock and Payment of Capital Component of Lease charges	22,403.29 (44.47)	22,267.49 (41.24)	21,723.98 (37.00)	24,240.71 (30.90)	26,610.98 (32.67)
Workshop and Production Units and Plant & Machinery	1,917.00 (3.80)	2,264.42 (4.19)	2,129.02 (3.63)	1,921.14 (2.45)	1,965.00 (2.41)
Investment in Government Undertakings	3,372.74 (6.69)	4,289.58 (7.95)	4,865.31 (8.29)	7,349.71 (9.37)	7,184.13 (8.82)
Others	5,969.23 (11.85)	6,635.43 (12.29)	8,016.01 (13.65)	8,288.81 (10.57)	9,449.82 (11.60)
Total	50,383.45	53,989.26	58,718.94	78,438.79	81,456.05*

*Excluding expenditure of ₹ 26,834.09 crore under PPP.

Source-Indian Railways Appropriation Accounts-Grant No.16 and Statement No.10-Statement of Expenditure on Capital Account.

Note: 1 Figures in brackets represent percentage to the total plan expenditure.

Note: 2 Others include Road Safety Works, Electrification Projects, Computerization, other Electric Works, Railway Research, Other Specified Works, Stores Suspense, Manufacturing Suspense, Miscellaneous Advance, Staff Quarters, Passenger Amenities, Metropolitan Projects.

Note: 3 The above Plan expenditure excludes an amount of ₹ 26,834.09 crore under PPP mode under Plan Heads viz New Lines, Traffic facilities, Rolling stock, Road Safety Works (Road Over/Under Bridge), Investment in PSUs etc.

Table 1.9 shows that the Plan Expenditure on track related works (Construction of New Lines, Gauge Conversion, Doubling, Yard Remodelling and Traffic Facilities, Bridge Works and Signal and Telecommunication Works) had shown healthy spurt during 2015-16 as compared to earlier years and was sustained at that level during 2016-17. Plan Expenditure on 'Rolling Stock and Payment of Capital Component of Lease charges also maintained positive growth during 2015-16 and 2016-17.

1.10 Railway Funds

Depreciation Reserve Fund (DRF) - For replacement and renewal of assets, the Railways maintain DRF financed by transfer from revenue in case of Zonal Railways and by transfer from Workshop Manufacture Suspense in case of Production Units.

Pension Fund - The fund is created to cover the current pension payments as also to meet the accumulated liability on account of pension benefits earned in each year of service. The fund is financed by transfer from revenue in case of Zonal Railways and by transfer from Workshop Manufacture Suspense in case of Production Units.

Development Fund (DF) - The fund is financed by appropriation from 'Surplus'. The fund is utilised to meet expenditure for works relating to amenities for users of railway transport, labour welfare works, unremunerative operational improvement works and safety works.

Capital Fund (CF) - The fund has been created (from 1992-93) with the express purpose of financing part of the requirement for works of capital nature. After providing for appropriation to DF, the balance of 'Surplus' is appropriated to CF. The fund remained operative till 2001-02. Thereafter, as a result of the implementation of the Fifth Pay Commission's recommendations, Railways were not able to generate enough internal resources for being appropriated to this fund. Hence, the fund was kept in operative from 2002-03 to 2004-05 and made operative from 2005-06.

Debt Service Fund (DSF) - The fund has been created (from 2013-14) with the sole purpose of providing for future debt service obligations in respect of loans taken from Japan International Cooperation Agency (JICA), World Bank and for future implementation of Pay Commissions. The fund is financed by appropriation from 'Surplus' after meeting the dividend liability and meeting mandatory requirement of CF and DF.

Railway Safety Fund (RSF) - This fund has been created (from 1 April 2001) for financing works relating to conversion of unmanned level crossings and for construction of road over/under bridges at busy level crossings. However, the scope of this fund has been enlarged in 2016-17 to also cover New Lines, Gauge Conversion, Electrification and Safety works. The fund is financed through transfer of fund by the central government from the Central Road Fund (out of diesel cess) as well as the contribution that was being made to the Railway Safety Works Fund out of the dividend being paid by the MoR to the General Revenues. Apart from this, amount can also be appropriated out of railway revenues i.e. out of the 'Surplus' left after payment of dividend to General Revenues.

The status of various Funds during 2016-17 is shown in Table 1.10.

Table 1.10 Fund Balances

(₹ in crore)

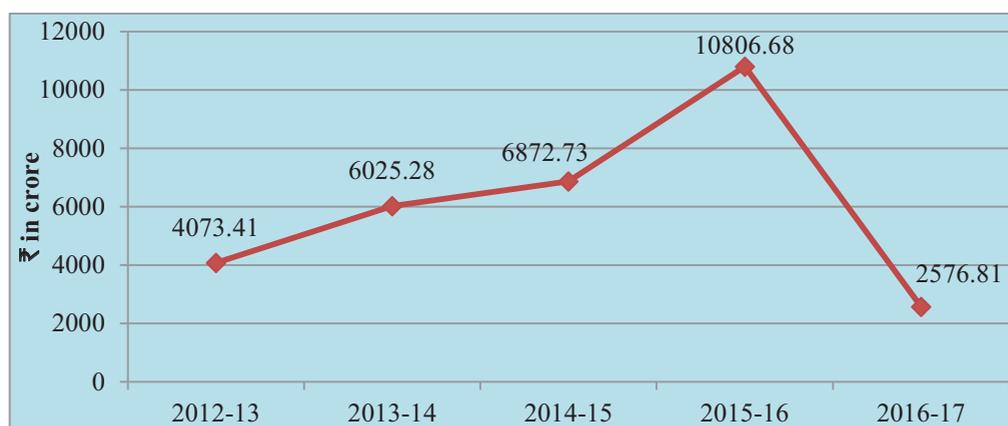
Name of Fund	Opening Balance	Accretion during the year	Withdrawal during the year	Closing Balance
DRF	32.78	5,399.73	4,982.01	450.50
Pension Fund	5,657.30	35,400.00	40,462.54	594.76
Development Fund	390.39	2,510.07	2,497.83	402.63
Capital Fund	907.43	2,398.00	3,000.00	305.43
Railway Safety Fund	15.52	10,739.77	10,732.03	23.26
Debt Service Fund	3,803.26	0.00	3,003.03	800.23
Total	10,806.68	56,447.57	64,677.44	2,576.81

Note- 1. Accretion includes financial adjustments, appropriation to fund and interest received on fund balances during the year.

2. Accretion under DRF, Development Fund and Railway Safety Fund includes financial adjustments of ₹ (-) 0.27 crore, ₹ (-) 4.93 crore and ₹ 7.74 crore respectively.

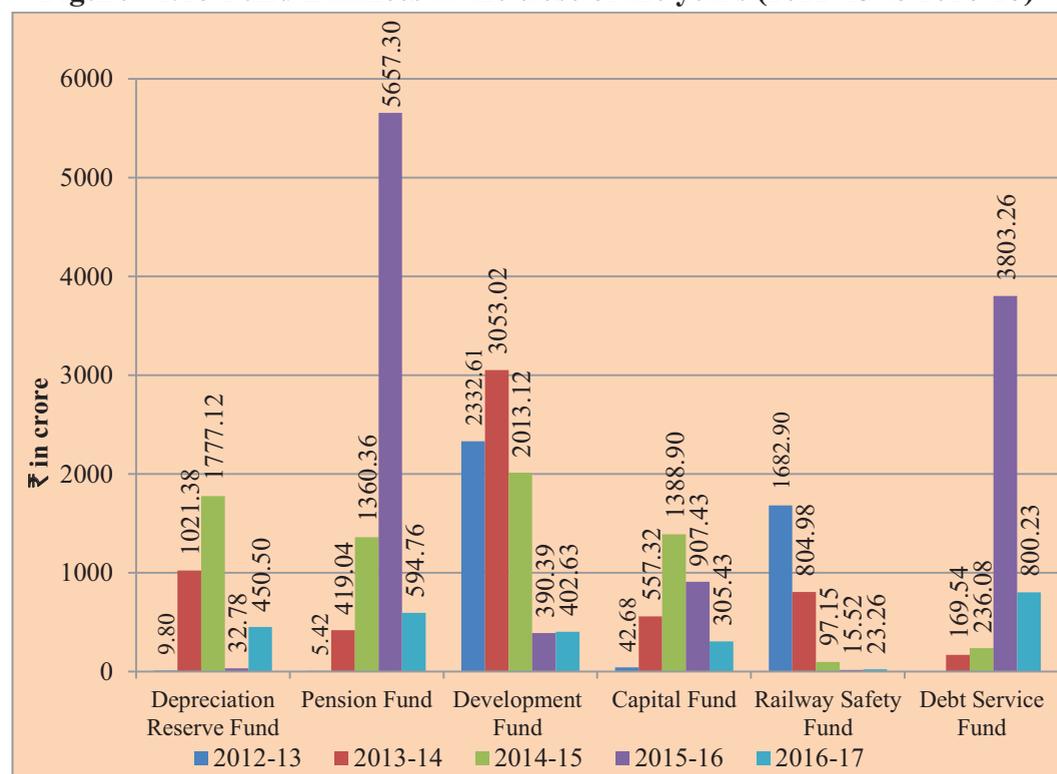
The funds shown in Table No. 1.10 were either financed through revenues or surplus except Railway Safety Fund, which received a share of the Diesel Cess. The Railway Safety Fund (RSF), Development Fund, Pension Fund and Debt Service Fund closed with balances of ₹ 23.26 crore, ₹ 402.63 crore, ₹ 594.76 crore and ₹ 800.23 crore respectively. *(Appendix-1)*

The fund balances which were on increasing trend during 2012-13 to 2015-16 sharply decreased in 2016-17 as shown in the Figure 1.15.

Figure 1.15-Trend of Fund Balances (2012-13 to 2016-17)

The balance in the funds decreased from ₹ 10,806.68 crore in 2015-16 to ₹ 2,576.81 crore in 2016-17 registering a decrease of ₹ 8,229.87 crore. The decrease in fund balances was mainly due to more expenditure from Pension Fund, Capital Fund and Debt Service Fund in comparison to amount credited in the funds during the year. No appropriation was made under Debt Service Fund during the year. The Railway Funds (except Railway Safety Fund) have been created under the interest bearing section in the Public Account. It was observed that no interest was credited to the Railway Funds (DRF, DF, PF, CF & DSF) during the year. This has been pointed out in audit; however no reply has been received from MoR.

The status of fund balances at the close of 2016-17 is shown in the Figure 1.16.

Figure 1.16-Fund Balances at the close of the years (2012-13 to 2016-17)

Source-Indian Railways Appropriation Accounts Part-II-Detailed Appropriation Accounts

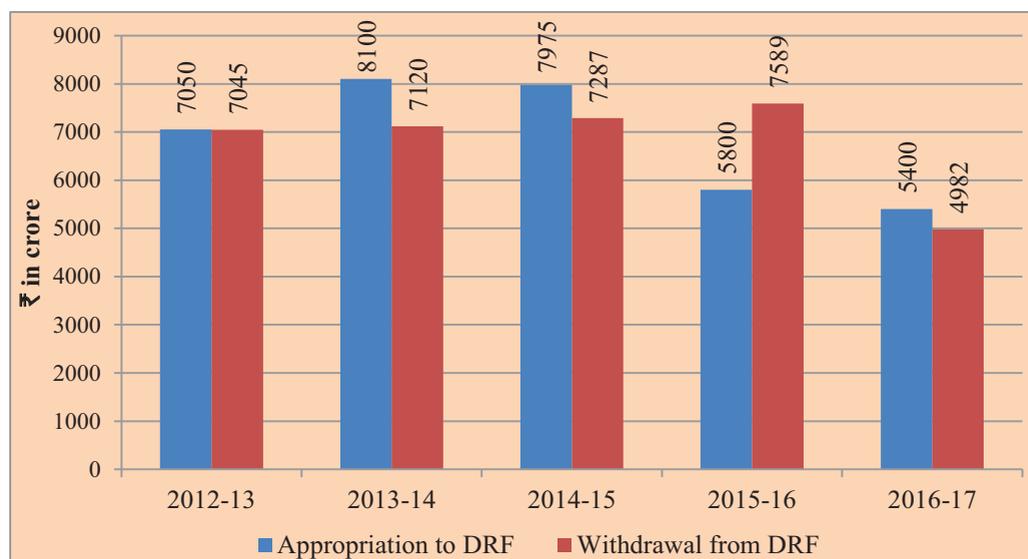
The balance available in the railway funds sharply decreased from ₹ 10,806.68 crore in 2015-16 to ₹ 2,576.81 crore at the end of the year 2016-17. DRF and Capital Fund closed with balance of ₹ 450.50 crore and ₹ 305.43 crore respectively. Analysis by Audit of the fund balances available in Capital Fund and DRF revealed the following:

1. IR borrows money through the IRFC for acquiring rolling stock by the financial lease route. These lease payment have two components, viz. principal components and interest. Prior to 2005-06, these payments were fully met through the OWE (Revenue Grant No.9-Operating Expenses-Traffic). However, from the year 2005-06, the Accounting policy in respect of account of lease charges payable to IRFC was modified. As per new accounting system, principal (Capital) component was to be charged to Capital Fund (Grant No. 16) and interest component was to be charged to Revenue Grant No. 9. Audit observed that MoR made payment of principal component of lease charges to IRFC from 2005-06 to 2010-11 from Capital Fund. However, thereafter due to negative balance/insufficient balance under the Capital Fund, this payment was made from 'Capital'²² by the MoR. This was in violation of their accounting policy. MoR made payment of ₹ 12,629.49 crore to IRFC from Capital instead of Capital Fund during 2011-12 to 2013-14. During 2014-15 and 2015-16, capital component of lease charges amounting to ₹ 5,449.24 crore and ₹ 6,324.74 crore was paid to IRFC from Capital Fund. During 2016-17 MoR paid an amount of ₹ 3999.99 crore from Capital towards payment of principal component of lease charges to IRFC. Thus, again the MoR violated its accounting policy and made payment from Capital. The fund balance under Capital Fund would have been reduced by ₹ 3,999.99 crore resulting in negative balance of ₹ 3,694.56 crore. During 2016-17, against budget provision of ₹ 5,750 crore, MoR appropriated only ₹ 2,398 crore which was less by ₹ 3,552 crore (58.30 percent) than the budgeted provision. Capital Fund closed with a meagre balance of ₹ 305.43 crore at the end of 2016-17. There will be a committed liability of ₹ 8,000 crore approx. of MoR in the next year for which at least a matching appropriation is mandatory to be made under this fund.
2. It is seen that the contribution to DRF was not made on the basis of historical cost, expected useful life and expected residual life of the asset but was dependent on the amount which the working expenses could bear. MoR in its Action Taken Note on Para 1.11 of the Audit Report of Railways Finances (No. 37 of 2016) stated (July 2017) that it agrees that appropriation to DRF should be made in accordance with the prescribed methodology. Railways have a very large asset base, whereas the financial position of the Railways has not been such so as to permit appropriation to

²²Capital represents the amount advanced by the GoI to MOR as GBS to finance Capital Expenditure and MOR pays dividend thereon at the rate fixed by the RCC.

this fund as per a set formula. However, all along, endeavour has been to ensure maximum appropriation to DRF on need cum availability basis. Appropriation to DRF and withdrawal from DRF during 2012-13 to 2016-17 is shown in the Figure 1.17.

Figure 1.17-Appropriation to and withdrawal from DRF



During 2016-17, against budget provision of ₹ 3,400 crore, MoR appropriated ₹ 5,400 crore²³ which was more by ₹ 2,000 crore (i.e. 58.82 per cent) than the budgeted provision. MoR had spent ₹ 4,982.01 crore on renewal and replacement of the assets from DRF during 2016-17 leaving a balance of ₹ 450.50 crore at the end of 2016-17. Audit further observed that there were negative balances under DRF in eleven Zonal Railways namely Central, Eastern, North Central, North Eastern, North Western, South Central, South Eastern, South East Central, South Western, Western, West Central Railways and Integral Coach Factory, Central Organization for Railway Electrification (CORE) and Metropolitan Transport Project-Chennai. Further, under provisioning for depreciation is resulting in piling up of throw forward of works concerning renewal of over aged assets. The throw forward value of assets to be replaced from DRF (up to 2016-17) was estimated at ₹ 47,679 crore which mainly includes ₹ 27,437 crore on rolling stock, ₹ 13,642 crore on track renewals, ₹ 2,019 crore on bridge works, ₹ 1,728 crore on signalling and telecommunication works and ₹ 961 crore on machinery and plants. Thus, there is huge backlog of renewal and replacement of over aged assets in railway system which needs to be replaced timely for safe running of trains.

1.11 Comments on Accounts

- **Mismatch in fund balances shown in the Railways' Debt Head Report (Review of Balances)/Detailed Appropriation Accounts (Part-II) and Railways' fund balances appearing in Statement No. 13 of Union Government Finance Accounts**

²³ Includes ₹ 200 crore towards appropriation under DRF for Production Units.

Fund Balances of the Railways are depicted in the Railway's Debt Head Report (Review of Balances) and Part-II-Detailed Appropriation Accounts. The Debt Head Report for the year is sent to the Controller General of Accounts (CGA) for inclusion in the Statement No.13 of Union Government Finance Accounts. It was observed that the Railways' Funds balances appearing in the Statement No.13 of Union Government Finance Accounts were not matching with the Funds balances shown by the MoR in its Statement/Appropriation Accounts.

A reference was made in the Audit Report No.53 of 2015-Railways Finances for the year ended March 2015. MoR in its ATN stated (May 2017) that the differences pointed out by audit are age old. However, efforts are being made to locate the differences and set right the mismatch. The differences in fund balances at the end of 2016-17 still continued. The matter was taken up again with the MoR in June 2017. MoR in its reply (October 2017) stated that Prior Period Adjustments (PPAs) have been proposed and sent to CGA for corrective action. However, in spite of these PPAs, there is difference in the funds balances shown in Statement No.13 of Union Government Finance Accounts 2016-17. The discrepancies in funds balances in the Statement No.13 still exist and need to be rectified by MoR.

➤ **Accountal of Tax Deducted at Source (TDS) by the Railways**

As per provisions under section 194 (c) of the Income Tax Act, 1961, the tax deductions from payment to contractors and sub-contractors are to be accounted for under Major Head 0021-Taxes on Income other than Corporation Tax. The Act also provides that tax deduction from Companies be accounted for under Major Head 0020-Corporation Tax. The List of Major and Minor Heads of Accounts also classifies the similar accounting heads for accountal of tax deductions from payments to contractors and sub-contractors.

In Railways, accountal of tax deducted from payments made to contractors (including Companies working as contractor) is being made under Major Head 0021-Taxes on Income other than Corporation Tax which is in violation of the provisions of Income Tax Act, 1961. Audit raised (January 2013) the issue of incorrect accountal of tax deducted by the Railways from Companies under Major Head 0021-Taxes on Income other than Corporation Tax instead of Major Head 0020-Corporation Tax.

MoR, in its reply, stated (April 2013) that Major Head 0020-Corporation Tax is for corporate profits and the TDS deducted by the government departments to their contractors (body corporation/others) should be booked under Major Head 0021-Taxes on Income other than Corporation Tax and matter is referred to Controller General of Accounts (CGA) for confirming the correctness of the procedure being followed by the Railways. However, no reply from CGA was received (as of September 2016) despite reminders issued by MoR in July 2013 and November 2014.

A reference was made in the Audit Report No.37 of 2016-Railways Finances for the year ended March 2016. However, no ATN on this para

has been submitted by MoR. In absence of any instructions or clarifications by the MoR to the Zones/Railway Production Units, this irregularity still persists in 2016-17 as detailed below:

- In North Central Railway a sum of ₹ 10.80 crore deducted from Companies during 2016-17 has been shown under Major Head 0021 instead of Major Head 0020 - Corporation Tax.
- In Central Organisation for Railway Electrification (CORE) a sum of ₹ 0.11 crore deducted from Companies during 2016-17 has been shown under Major Head 0021 instead of Major Head 0020 - Corporation Tax.
- In North Western Railway a sum of ₹ 8.83 crore deducted from Companies during 2016-17 has been shown under Major Head 0021 instead of Major Head 0020 - Corporation Tax.

Krishi Kalyan Cess: As per Government of India Notification No.31/2016-Service Tax dated 26-05-2016, Krishi Kalyan Cess at the rate of 0.5 *per cent* on all taxable services was to be levied with effect from June 01, 2016. It was observed that no deductions under Krishi Kalyan Cess were made by the East Central Railway and Northern Railway during the year 2016-17. The issue of non-levy of Krishi Kalyan Cess by East Central Railway and Northern Railway was taken up with the MoR in August 2017. However, no reply was received from MoR in this regard.

Swachh Bharat Cess: As per Government of India Notification No.21/2015-Service Tax dated 6-11-2015, Swachh Bharat Cess at the rate of 0.5 *per cent* on all taxable services was to be levied with effect from 15-11-2015. It was observed that no deductions under Swachh Bharat Cess were made by the East Central Railway during the year 2016-17. The issue of non-levy of Swachh Bharat Cess by East Central Railway was taken up with the MoR in August 2017. However, no reply was received from MoR in this regard.

➤ **Utilisation of funds under Extra Budgetary Resources (Institutional Finance)**

IR has been suffering from consistent under-investments in its capital works. Consequently, a large shelf of sanctioned projects could not be completed due to non-availability of sufficient resources. In the Rail Budget (2015-16), MoR decided to borrow funds from institutional sources so as to ensure availability of funds for the next five years for completion of the projects critical for Railways for generation of revenues. The new source of funding was termed as Extra Budgetary Resources (Institutional Finance) EBR-IF.

Audit observed that during 2016-17, EBR-IF funds amounting to ₹ 13,170 crore were received from IRFC and the actual expenditure under EBR-IF incurred by the Zonal Railways and CORE during 2016-17 was ₹ 11,465.15 crore.

1.12 Conclusion

Total Working Expenditure during 2016-17 increased to ₹ 1, 59,029.61 crore (by 7.57 *per cent*) from ₹ 1,47,835.93 crore in 2015-16. Gross Traffic Receipts increased to ₹ 1,65,292.20 crore (by 0.58 *per cent*) from ₹ 1,64,333.51 crore in 2015-16. Net surplus after meeting all revenue liabilities stood at ₹ 4,913.00 crore in 2016-17 as against ₹ 10,505.97 crore in 2015-16, even though no dividend was paid during 2016-17 as compared to ₹ 8,722.51 crore dividend paid during 2015-16. The actual amount required to meet the expenditure on pension payments was ₹ 40,025.95 crore during the year. However, ₹ 35,000 crore (against the Budget Provision of ₹ 42,500 crore) was appropriated to Pension Fund. Thus, there was under provisioning of ₹ 5,025.95 crore under the Pension Fund, thereby understating the total working expenditure to that extent. Had the actual amount (₹ 40,025.95 crore) required to meet the expenditure on pension payments been appropriated, there would have been a negative balance of ₹ 112.95 crore (instead of surplus of ₹ 4,913 crore) leaving no surplus available for appropriation to the funds (DF, CF and Debt Service Fund).

During 2016-17, the growth rate of passenger originating (no. of passengers) improved by 0.11 *per cent*. IR has not been able to meet their operational cost of passenger and other coaching services. There was cross-subsidization from freight services to passenger services. IR earned profit of ₹ 42,426.63 crore from freight traffic on one hand and incurred loss of ₹ 36,286.33 crore on operation of passenger and other coaching services on the other hand during 2015-16. There was an improvement in recovering the cost of passenger services in 2016-17. In 2016-17, the freight loading of 1,106.15 Million Tonne witnessed a meagre increase of 0.41 *per cent*. However, due to decline of 5.24 *per cent* in Net Tonne Kilometres in revenue freight traffic, the average lead (average haul of a tonne of freight) declined from 594 Kilometres in 2015-16 to 561 Kilometres in 2016-17.

The balance available in the railway funds sharply decreased from ₹ 10,806.68 crore in 2015-16 to ₹ 2,576.81 crore at the end of the year 2016-17. Pension Fund, DRF, Development Fund and Capital Fund closed with balance of ₹ 594.76 crore, ₹ 450.50 crore, ₹ 402.63 crore and ₹ 305.43 crore respectively. The decrease in fund balances was mainly due to more expenditure from Pension Fund, Capital Fund and Debt Service Fund in comparison to amount credited in the funds during the year and no interest was credited to the interest bearing funds during the year. During 2016-17 MoR paid an amount of ₹ 3,999.99 crore from Capital towards payment of principal component of lease charges to IRFC. Thus, again the MoR violated its accounting policy and made payment from Capital. The fund balance under Capital Fund would have been reduced by ₹ 3999.99 crore resulting in negative balance of ₹ 3,694.56 crore.

MoR had spent ₹ 4,982.01 crore on renewal and replacement of the assets from DRF during 2016-17 whereas the throw forward value of assets to be replaced from DRF (up to 2016-17) was ₹ 47,679 crore. Thus, there is huge backlog of renewal and replacement of over aged assets in railway system which needs to be replaced timely for safe running of trains. As there was a meagre balance of ₹ 450.50 crore in DRF at the end of 2016-17, MoR needs to make sufficient appropriation to DRF for meeting the expenditure on renewal and replacement of over aged assets.

The Operating Ratio which was 90.49 per cent in 2015-16, deteriorated to 96.50 per cent in 2016-17 for IR. The Operating Ratio during the current year had deteriorated to an all-time low since 2000-01 when it was 98.34 per cent. Taking into account the actual amount of ₹ 40,025.95 crore required to be appropriated to the Pension Fund (instead of ₹ 35,000 crore), the OR of IR would have been at 99.54 per cent instead of 96.50 per cent. Thus, the OR of 96.50 per cent does not reflect the true financial performance of the Railways. The COR increased from 374 paise in 2015-16 to 445 paise in 2016-17 indicating decrease in the physical performance of the IR.

1.13 Recommendations

- *The Operating Ratio during 2016-17 had deteriorated to the lowest level of 96.50 per cent since 2000-01 when it was 98.34 per cent. When actual expenditure on pension payments is taken into account, the OR works out to 99.54 per cent. Since, Operating Ratio is a direct indicator of the working of Railways; the Ministry of Railways should also look into the various innovative ways for revenue generation and closely monitor the expenditure.*
- *Ministry of Railways needs to revisit the passenger and other coaching tariffs so as to recover the cost of operations in a phased manner and reduce its losses in its core activities. The fixation of passenger fare and freight charges should be based on the cost involved so that it brings both rationality and flexibility in pricing considering the financial health of Railways and the current market scenario. There is hardly any justification for not fully recovering the cost of passenger services in case of AC 1st Class, First Class and AC 2-Tier. However, since one of the factors for non-recovering full cost from these classes could be issue of free and concessional fare passes/ tickets to various beneficiaries in good numbers, this practice needs to be scaled down.*
- *Non-availability of sufficient funds in Depreciation Reserve Fund to replace the over aged assets is indicative of weak financial health of Indian Railways. The huge backlog of renewal and replacement of over aged assets in railway system needs to be addressed for safe running of trains.*
- *Total Capital grew from ₹ 1,83,488 crore as on 31 March 2013 to ₹ 3,12,635 crore as on 31 March 2017, total traffic handled declined from 7,27,610 million Net Tonne Kilometres to 7,01,813 million Net Tonne Kilometres respectively. Railways need to take measures to improve competitiveness of its services vis-à-vis Road and Air travel.*

Chapter 2 Appropriation Accounts

This Chapter outlines Indian Railways (IR) financial accountability and budgetary practices through audit of Appropriation Accounts.

Railway Budget is an instrument of Parliamentary Financial Control and at the same time, an important management tool for Ministry of Railways, Government of India. Parliamentary Financial Control is secured not only by the fact that all 'voted' expenditure receives Parliament's prior approval, but also by the system of reporting back to it, the actual expenditure incurred against the Grants/Appropriations voted/approved by Parliament. The statements, which are prepared for presentation to Parliament, comparing the amount of actual expenditure with the amount of Grants voted by Parliament and Appropriations sanctioned by the President, are called the “**Appropriation Accounts**”.

Appropriation Accounts detail the accounts related to expenditure of IR for a particular year as compared to the appropriations for different purposes as specified in the schedules appended to the Appropriation Act passed by Parliament. These Accounts list the original budget allocation, supplementary grants, surrenders and re-appropriations distinctly and indicate the actual capital and revenue expenditure on various specified services vis-à-vis those authorized by the Appropriation Act in respect of both charged and voted items of budget. Appropriation Accounts thus facilitate management of finances and monitoring of budgetary provisions and are therefore complementary to Finance Accounts.

The Appropriation Accounts are signed both by the Chairman, Railway Board and by the Financial Commissioner, Railways and transmitted to the Comptroller and Auditor General (C&AG) of India for audit. Audit by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure actually incurred under various grants is within the authorization given under the Appropriation Act and also whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.

2.1 Summary of Appropriation Accounts

IR is authorized for expenditure through operation of 16 Grants comprising of 15 Revenue Grants²⁴ (Grants number 1 to 15) and one Capital Grant²⁵ (Grant No. 16). Revenue grants were financed through the internal resources generated by IR through its earnings during the year. The Capital grant was funded mainly through the General Budget, internal resources and share of “diesel cess” from Central Road Fund²⁶ (CRF).

Appropriation Accounts (Railways) for the sums expended during the year ended 31 March 2017, compared with the sums authorized in the Original and Supplementary Demands for Grants for expenditure and passed under Article 114 and 115 of the Constitution of India are summarized in Table 2.1.

²⁴ Grants detailing working expenses and other revenue expenditure as voted by Parliament.

²⁵ Grant detailing expenditure on Assets Acquisition, Construction and Replacement voted by Parliament.

²⁶ A dedicated Central Road Fund was created by the Central Government for collection of cess from petrol and diesel. A share of collection is provided to Railways for construction of road over/under bridges and safety works at unmanned railway crossings.

Summary of Appropriation Accounts 2016-17

(₹ in crore)

Table 2.1 (a) Summary of Appropriation Accounts (2016-17)-Revenue Expenditure						
Particulars		Original Grant/ Appropriation	Supplementary Grant	Total Sanctioned Grant	Actual Expenditure	Saving (-) / Excess (+)
Revenue	Voted	239607.85	3050.00	242657.85	210752.43	-31905.42
	Charged	149.09	12.23	161.32	138.83	-22.49
(A) Total Revenue Expenditure	Voted and Charged	239756.94	3062.23	242819.17	210891.26	-31927.91
Less	Credit				5046.24	
	Amount recouped from Pension Fund				40462.53	
Net Revenue Expenditure					165382.49	
<i>Note: 1. Credit of ₹ 5,046.24 crore was on account of recovery towards cost of staff from non-railway departments, commission charges recovered from Defence, materials released from works, share of credits for freight charges on railway materials, value of cinders and coal ash sold, credit for electric energy supplied to outsiders, sale proceeds of railway canteens, amount met from Debt Service Fund etc.</i>						
Table 2.1 (b) Summary of Appropriation Accounts (2016-17)-Capital Expenditure						
Particulars		Original Grant/ Appropriation	Supplementary Grant	Total Sanctioned Grant	Actual Expenditure	Saving (-) / Excess (+)
Capital	Voted	117513.71*	1519.45	119033.16	113096.22	-5936.94
	Charged	62.25	195.52	257.77	268.40	10.63
(B) Total Capital Expenditure	Voted and Charged	117575.96	1714.97	119290.93	113364.62	-5926.31
Less	Credit				46921.11	
	Amount met from Funds (Depreciation Reserve Fund, Development Fund, Capital Fund) i.e. Internal resources				10479.84	
	Amount met from Railway Safety Fund				10732.03	
Capital Expenditure from GBS					45231.64	
Capital Expenditure from GBS and Internal Resources					55711.48	
(A)+(B) Grand Total (Revenue and Capital) as per Appropriation Accounts 2016-17	Voted and Charged	357332.90	4777.20	362110.10	324255.88	-37854.22
Less : Credits/recoveries and amount recouped/met from Funds					113641.75	
Net Expenditure (Revenue and Capital) as per Appropriation Accounts					210614.13	
Total Expenditure as per Finance Accounts (2016-17)					210614.13	
<i>* This excludes ₹ 34,220 crore given by Ministry of Finance out of National Investment Fund (NIF) and includes ₹ 10780 crore from Central Road Fund (CRF) as part of GBS.</i>						
<i>Note: 1.Credit under Capital (₹ 46,921.11 crore) includes credit for released materials, clearance under Suspense Heads (Stores Suspense, Workshop Manufacture Suspense and Miscellaneous Advance (Capital)).</i>						
Table 2.1 (c) Capital Expenditure in Indian Railways (2016-17)						
Particulars					₹ in crore	
Actual Capital Expenditure as per Appropriation Account					113364.62	
Less: Credits/recoveries in reduction of expenditure					68132.98	
Expenditure from GBS					45231.64	
Add: Expenditure from Internal resources					10479.84	
Add: Expenditure from Extra Budgetary Resources					52578.66	
Total Capital Expenditure					108290.14	

The above Table lists out the total expenditure of IR as ₹ 3,24,255.88 crore during the financial year 2016-17, of which nearly 65.04 *per cent* was spent on revenue grants which include working expenses on administrative, operational and maintenance activities while 34.96 *per cent* was spent on capital grant dealing with creation and augmentation of infrastructure facilities through Assets Acquisition, Construction and their Replacement/Renewal. The above Table also indicates savings of 13.15 *per cent* (₹ 31,927.91 crore) under revenue grants and savings of 4.97 *per cent* (₹ 5,926.31 crore) under capital grant against the sanctioned provisions available in 2016-17.

An analysis of grant-wise expenditure revealed that the net saving of ₹ 37,854.22 crore was a result of savings of ₹ 37,887.35 crore under all fifteen revenue grants, nine revenue charged appropriations²⁷ and two segments of Capital Grant adjusted by an excess of ₹ 33.13 crore in two revenue Charged appropriations one segment of Capital grant and three segments of Capital appropriations as are shown in *Appendix-2*. However, the savings of ₹ 31,927.91 crore under revenue grants reflect over provisioning disregarding the realistic flow of revenue.

2.1.1 Revenue Grants

IR operates 15 Revenue Grants. These are functionally clubbed under six distinct groups as listed in Table 2.2:-

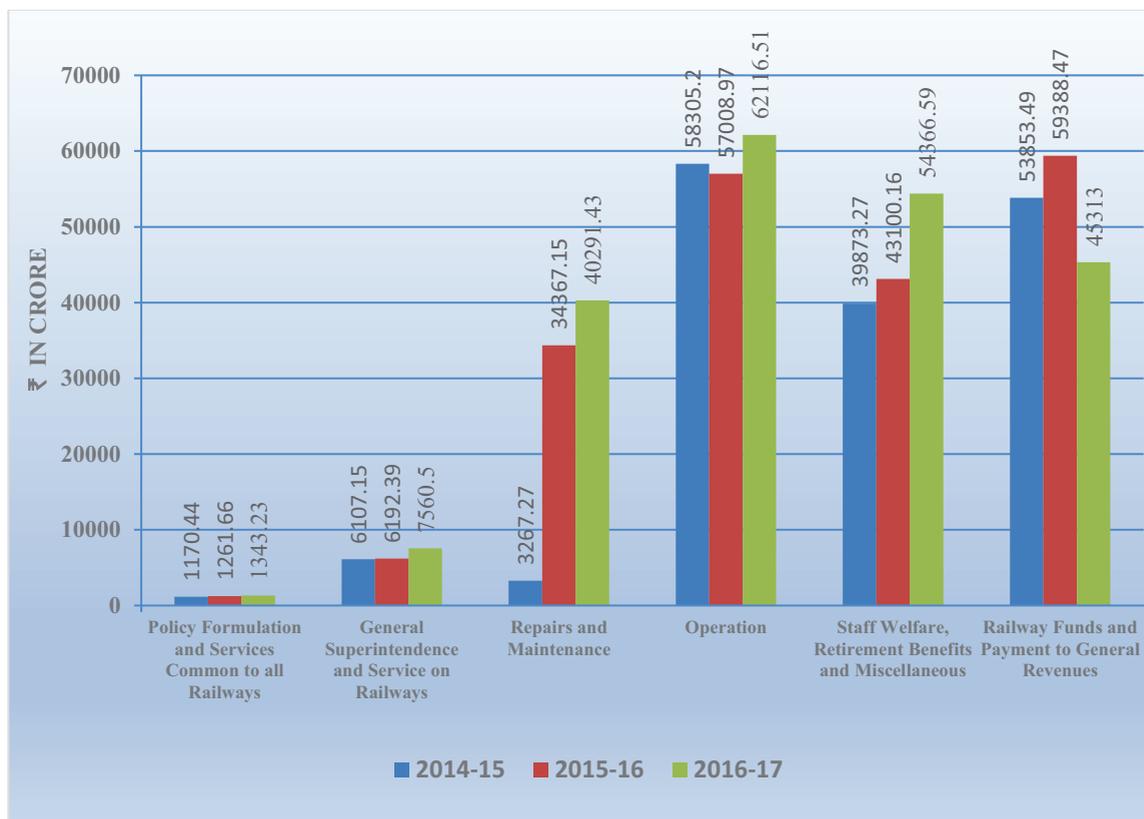
Table 2.2- Grants operated by Railways

No.	Particulars	Six Distinct Group
1	Railway Board	Policy Formulation and Services Common to all Railways
2	Miscellaneous Expenditure (General)	
3	General Superintendence and Service on Railways	General Superintendence and Service on Railways
4	Repairs and Maintenance of Permanent Way and Works	Repairs and Maintenance
5	Repairs and Maintenance of Motive Power	
6	Repairs and Maintenance of Carriages and Wagons	
7	Repairs and Maintenance of Plant and Equipment	
8	Operating Expenses-Rolling Stock and Equipment	Operation
9	Operating Expenses-Traffic	
10	Operating Expenses-Fuel	
11	Staff Welfare and Amenities	Staff Welfare, Retirement Benefits and Miscellaneous
12	Miscellaneous Working Expenses	
13	Provident Fund, Pension and Other Retirement Benefits	
14	Appropriation to Funds	Railway Funds and Payment to General Revenues
15	Dividend to General Revenues, Repayment of loans taken from General Revenues and Amortization of over Capitalization	

²⁷ Appropriation refers to expenditure charged on Consolidated Fund of India.

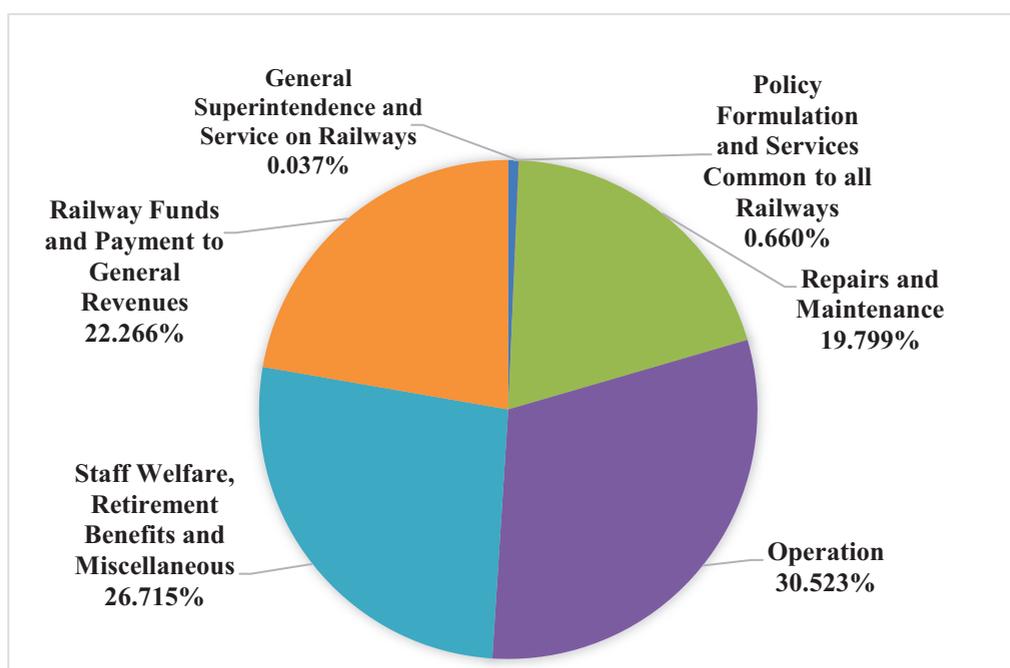
The following figure depicts group-wise expenditure for last three years which shows an increasing trend in expenditure of Indian Railways:

Figure 2.1 Trend of Revenue Expenditure-Group-wise during 2014-15 to 2016-17



The following figure depicts the group-wise expenditure in 2016-17:

Figure - 2.2 Group wise Revenue Expenditure (2016-17)



Group-wise estimates, expenditure and variation under the revenue grants are detailed in Table 2.3.

Table- 2.3 Group wise Estimates, Expenditure and Variation (2016-17)

Particulars	Original Grant/ Appropriation	Supplementary Provision	Total Sanctioned Grant	Actual Expenditure	₹ in crore)	
					Variation w.r.t. Sanctioned Grant (-) Saving/ (+) Excess	Percentage variation
Policy Formulation and Services Common to all Railways	1700.01	0.00	1700.01	1343.23	(-) 356.78	(-) 20.98
General Superintendence and Service on Railways	8361.84	0.00	8361.84	7560.50	(-) 801.34	(-) 9.58
Repairs and Maintenance	42453.91	0.43	42454.34	40291.43	(-) 2162.91	(-) 5.09
Operation	62479.38	3050.00	65529.38	62116.51	(-) 3412.87	(-) 5.21
Staff Welfare, Retirement Benefits and Miscellaneous	60751.16	11.80	60762.96	54366.59	(-) 6396.37	(-) 10.52
Railway Funds and Payment to General Revenues	64010.64	0.00	64010.64	45213.00	(-) 18797.64	(-) 29.36

The main reasons for variations with reference to sanctioned provisions are as under:

- **Indian Railways Policy Formulation**

Savings in expenditure due to less expenditure on staff cost, office automation computer cell, furniture, telephone, printing, slow progress of survey work, less materialisation of contractual liabilities and decrease in number of passengers on worked lines during the year.

- **General Superintendence and Service on Railways**

Savings in expenditure due to less expenditure on staff cost, less honorarium and contingencies, less cases of leave encashment, less electricity charges, non-filling of vacancies, materialization of less contractual liabilities and other expenses during the year.

- **Repairs and Maintenance**

Reduction in expenditure towards salary and wages, staff cost, establishment charges, contingencies, materialization of less contractual payments, less expenditure on procurement of non-stock items, less drawl of stores from stock, less adjustment of debits, decrease in repair activities, less expenditure towards wages and material on Periodical Overhaul (POH), less expenditure on power supply and electrical instruments and less expenditure on IT infrastructure maintenance during the year than anticipated.

- **Operation**

Reduction in expenditure towards staff cost, materialization of less contractual obligations, less drawl of lubricants and consumable stores from stock, less expenditure on publicity and contingencies, less expenses towards freight and handling charges, sales tax/excise duty reduction in cost of High Speed Diesel (HSD) oil, less consumption of HSD oil due to less activity of diesel locos, less expenditure towards consumption of electric energy for traction services, less adjustment of debits and less adjustment for payment of leasing charges other than Indian Railway Finance Corporation (IRFC) during the year than anticipated.

- **Staff Welfare, Retirement Benefits and Miscellaneous**

Reduction in expenditure due to less staff cost, receipt of less claims for reimbursement of tuition fees, less expenditure towards purchase of medicines and repair of medical equipments, less expenditure on sports and staff canteen, less drawl of stores from stock, less materialisation of contractual obligations, less expenditure on claims prevention organization, less expenditure towards compensation claims, less payment towards ex-gratia, less training activities, less procurement of stores and adjustment of less debits, less commutation of pension, less debit towards family pension from pension disbursing Authorities, less number of finalization of death cum retirement gratuity cases, less expenditure towards leave encashment for pension optees for less settlement of cases and less expenditure on Deposit Linked Insurance Scheme during the year, than anticipated.

- **Railway Funds and Payment to General Revenues**

Reduction in expenditure due to deterioration of net resource position by end of the year and nil payment of dividend to General Revenue due to waiver of the dividend payable during the year.

Grant wise authorisation and expenditure under the revenue and capital grants and appropriations are detailed in *Appendix-2*.

2.2 Financial Accountability and Budget Management: Excess over Budget Provision

Table 2.4 gives the grants and appropriations wherein expenditure was incurred in excess of authorized expenditure during 2016-17.

Table 2.4 Excess Expenditure (2016-17)

(₹ in crore)						
S. No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Excess	
Revenue-Voted						
	Nil					
Revenue-Charged						
1	Appropriation No. 4- Working Expenses- Repairs and Maintenance of Permanent Way and Works	1.50	0.21	1.79	0.08	
2	Appropriation No. 7- Working Expenses- Repairs and Maintenance of Plant and Equipment	0.50	0.21	0.72	0.01	
	Total- Revenue-voted and Charged	2.00	0.42	2.51	0.09	

Capital- Voted					
16	Railway Safety Fund	10780.30	0	10802.72	22.42
	Total Voted –Revenue and Capital	10780.30	0	10802.72	22.42
Capital-Charged					
16	Capital	49.17	170.83	228.05	8.05
	Railway Funds	13.08	7.60	21.11	0.43
	Railway Safety Fund	0	17.09	19.23	2.14
	Total Charged	62.25	195.52	268.39	10.62
	Total Capital-Voted and Charged	10842.55	195.52	11071.11	33.04
	Grand Total – Capital and Revenue	10844.55	195.94	11073.62	33.13

Under revenue there was excess expenditure of ₹ 0.09 crore in charged appropriations in Appropriation No.4 Working Expenses- Repairs and Maintenance of Permanent Way and Works and Appropriation No.7- Working Expenses – Repairs and Maintenance of Plant and Equipment in spite of obtaining supplementary provision.

Under capital there was excess expenditure of ₹ 22.42 crore in one segment of the Capital Grant No. 16-Railway Safety Fund. Reason for excess expenditure under the segment was due to materialization of more store debits than anticipated, more materialization of contractual payments than anticipated and better progress of works.

There was an excess expenditure of ₹ 10.62 crore in all the three segments of Capital charged appropriations in spite of obtaining supplementary provision. In charged appropriation of RSF, there was no original provision. The reasons for excess expenditure were attributed to more expenditure towards materialization of more decretal payments, than anticipated. However, the excess expenditure was minor under charged appropriations.

Trend of Excess in the Grants and Appropriations

Table 2.5 Excess Expenditure during the last three years

(₹ in crore)							
Year	No of Voted Grant	No. of Charged Appropriation	Original Provision	Supplementary Provision	Actual Expenditure	Excess	Growth rate in percent
2014-15	3	3	44,508.75	2,818.12	47,817.24	490.37	-81.97
2015-16	1	5	907.37	2.26	985.50	75.87	-546.33
2016-17	1	3	10844.55	195.94	11073.62	33.13	-128.93

Railways have incurred excess expenditure of ₹ 33.13 crore (Voted ₹ 22.42 crore and Charged ₹ 10.71 crore) in the year 2016-17. It can be seen in Table 2.5, the amount of excess expenditure has decreased slightly in comparison to the excess expenditure incurred during the year 2014-15 and 2015-16. Though MoR has been applying the mechanism of budgetary control since 2015-16 by integrating Indian Railways Accounting Units with the Railway Board through Integrated Pay roll and Accounting System (IPAS), still there was excess expenditure in 2016-17.

Excess expenditure, whatever the quantum, is ‘unauthorised expenditure’ portraying lack of financial discipline. Excess expenditure above the budgetary provisions sanctioned by the Parliament either at the Budget Grant stage or Supplementary Grant Stage, does not augur well for fiscal prudence besides undermining the Parliamentary control.

The excesses over the budgetary sanctions require regularization by Parliament under Article 115(1) (b) of the Constitution of India.

2.3 Capital Grant No. 16-Assets, Acquisition, Construction and Replacement

IR operates one Grant for capital expenditure. It deals with expenditure on construction, acquisition and replacement of assets of IR. This grant has three segments and draws its funding from three distinct sources:

- **Capital**-budgetary support advanced by general budget of Government of India,
- **Railway Funds**-internal resources kept under three different reserves²⁸,
- **Railway Safety Fund**-financed by Railways' share of diesel cess from Central Road Fund, and

Re-appropriation of funds from one segment of Grant to another segment is not permissible.

Segment wise allocation and expenditure is given in table 2.6 below:

Table 2.6 Segment wise Expenditure under Grant No. 16
(₹ in crore)

Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
Voted					
Capital	90070.35	1519.45	91589.80	90186.63	(-) 1403.17
Railway Funds	16663.06	0	16663.06	12106.87	(-) 4556.19
Railway Safety Fund	10780.30	0	10780.30	10802.72	(+) 22.42
Total Voted	117513.71	1519.45	119033.16	113096.22	(-) 5936.94
Charged					
Capital	49.17	170.83	220.00	228.05	(+) 8.05
Railway Funds	13.08	7.60	20.68	21.11	(+) 0.43
Railway Safety Fund	0	17.09	17.09	19.23	(+) 2.14
Total Charged	62.25	195.52	257.77	268.39	(+) 10.62

Reasons for saving in voted grant in two segments (Capital & Railway Funds) and excess expenditure in one segment (RSF) have been explained segment wise as under.

➤ Capital

In 2016-17, provision of ₹ 91,589.80 crore was made for acquisition and construction of assets/rolling stocks etc. There was a net saving of ₹ 1,403.17 crore (1.53 per cent of the sanctioned grant), against the sanctioned provision, in this segment of the grant. Reasons for savings are less expenditure towards materialization of less contractual liabilities, less Completion of work, delayed/non finalization of tenders, Works transferred to RVNL, Works funded by EBR-IF in between the year, slow progress of work, less materialization/adjustment of store

²⁸ Reserve Funds were Depreciation Reserve Fund (DRF), Development Fund (DF) and Capital Fund (CF).

debits than anticipated, less execution of computerized works, decrease in activity of construction/acquisition of rolling stock than anticipated, less procurement of M&P items, less investment in government undertakings, decrease in consumption of fuels etc.

➤ Railway Funds

Appropriation Accounts for 'Railway Funds' under Grant No. 16 are financed from the internal resources of IR either by charging to 'Working Expenses' (DRF) or from 'Net Revenue Surplus' (DF and CF). Thus, performance of IR and availability of balances in the fund accounts impacts planning of expenditure under this segment of the grant. Source-wise break-up of sanctioned allocation and expenditure under Railway Funds is tabulated in Table 2.7.

Table-2.7-Component of Railway Funds

(₹ in crore)

Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
Voted					
Depreciation Reserve Fund	7146.92	0	7146.92	6606.93	(-) 539.99
Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
Development Fund	2516.14	0	2516.14	2499.95	(-) 16.19
Capital Fund	7000.00	0	7000.00	3000.00	(-) 4000.00
Total Voted	16663.06		16663.06	12106.88	(-) 4556.18
Charged					
Depreciation Reserve Fund	13.08	7.39	20.47	19.81	(-) 0.66
Development Fund	0	0.20	0.20	1.30	(+) 1.10
Capital Fund	0	0	0	0	0
Total Charged	13.08	7.59	20.67	21.11	(+) 0.44
Grand Total -Voted and Charged	16676.14	7.59	16683.73	12127.99	(-) 4555.74

Analysis of this segment of grant revealed that there were net savings of ₹ 4,555.74 crore (27.31 per cent of the sanctioned grant). Reasons for savings are less expenditure towards materialization of less contractual liabilities, Completion of work, delayed/non finalisation of tenders, slow progress of work, less materialisation/adjustment of store debits than anticipated, decrease in activity of construction/acquisition of rolling stock than anticipated, less procurement of M&P items and Works taken under RSF.

➤ Railway Safety Fund

This source of capital expenditure is funded by IR's share of diesel cess in Central Road Fund. Available fund is utilized for road safety works like manning of unmanned railway crossing and construction of road over/under bridges. There were an excess expenditure of ₹ 22.42 crore against sanctioned grant of ₹ 10,780.30 crore constituting 0.21 per cent during 2016-17.

Reason for excess expenditure under this segment are materialization of more store debits than anticipated, materialization of more contractual payments than anticipated on account of better progress of works.

2.3.1 Withdrawal/Utilization of Funds

The Table 2.8 below depicts the status of Budget Estimate and Actual with regard to 'Appropriation to funds' and 'Amount utilized' from the funds during the last three years:

Table 2.8-Appropriation to Railway Funds and withdrawal there from during the last three years ended 31 March 2017

		(₹ in crore)		
Fund	Particulars	2014-15	2015-16	2016-17
DRF	Appropriation to Fund(BE)	7,050.00	8,100.00	3,400.00
	Appropriation to Fund(Actual)	7,975.00	5,800.00	5,400.00
	Excess (+)/Short (-) appropriation	925	(-)2,300.00	(+) 2,000.00
	Expenditure/withdrawal from fund	7,286.93	7,588.95	4,982.01
DF	Appropriation to Fund(BE)	300.00	5,750.00	2,515.00
	Appropriation to Fund(Actual)	1,374.94	1,219.74	2,515.00
	Excess (+)/Short (-) appropriation	1,074.94	(-)4,530.26	0
	Expenditure/withdrawal from fund	2,611.07	2,931.6200	2,497.83
CF	Appropriation to Fund (BE)	5,662.74	7,615.71	5,750.00
	Appropriation to Fund (Actual)	6,233.36	5,798.24	2,398.00
	Excess (+)/Short (-) appropriation	570.62	(-)1,817.47	(-) 3,352.00
	Expenditure/withdrawal from fund	5,449.24	6,324.74	3,000.00
Total (Railway Funds)	Appropriation to Fund (BE)	13,012.74	21,465.71	11,665.00
	Appropriation to Fund (Actual)	15,583.30	12,817.98	10,313.00
	Excess (+)/Short (-) appropriation	2,570.56	(-)8,647.73	(-) 1,352.00
	Expenditure/withdrawal from fund	15,347.24	16,845.31	10,479.84

From the above, it can be seen that the appropriation to the funds was made under DF to the extent the working expenditure could bear. During 2016-17, there was a saving under this segment of capital expenditure by 0.60 *per cent* of Budget Provision.

DRF, which is created to meet the requirement of funds needed for renewal/replacement of existing over aged assets, is not being appropriated as per the life of the assets but the appropriation in the fund was made to the extent the working expenses could bear. During 2016-17, there was a saving under this segment of capital expenditure by 7.54 *per cent* of Budget Provision.

CF, to meet the expenditure on leased assets there was a saving under this segment of capital expenditure by 57.14 *per cent* of Budget provision.

2.4 Misclassification of Expenditure

Instances of misclassification of expenditure and other accounting mistakes had been noticed while verifying the Accounts of the Zonal Railways. Cases of misclassification of expenditure and important accounting mistakes have been listed in the “Appropriation Accounts of IR 2016-17-Detailed Accounts-Part II. These cases included misclassification of expenditure from one revenue grant to another and also from revenue to capital grant and vice-versa. Cases of misclassification of expenditure from Voted and Charged were also identified in audit.

The revised Annexure-J, containing cases of such misclassifications was not furnished by the MoR.

Some instances of misclassification of expenditure and receipts in the Accounts of the Zonal Railways during 2016-17 are mentioned below:

- **Misclassification between Revenue expenditure and Capital expenditure**
 - (i) In **CR**, freight and incidental charges amounting to ₹ 20.78 crore was debited to Revenue Grant No. 12-Miscellaneous Working Expenses instead of Grant No.16 – Capital Expenditure (₹ 15.24 crore + ₹ 5.54 crore stores purchase section)
 - (ii) **NR** Railway Administration has booked an amount of ₹ 0.14 crore towards miscellaneous work of TRD assets in Sahnawal-Amritsar section to Grant No.16 – Capital Expenditure instead of Grant No.07 - Repair and Maintenance of Plants and Equipments.
 - (iii) In **NR**, expenditure amounting to ₹ 1.00 crore towards capitalized charges of deposit work was accepted and credited wrongly on Grant No. 16- Track Renewal instead of Grant No. 09 - Operating Expenses – Traffic
 - (iv) In **SCR**, amount of ₹ 0.22 crore towards Deep Screening was booked under Grant No. 16 3100-DRF instead of Grant No.04 Repair and Maintenance of Permanent Ways and Works.
 - (v) **SCR** booked an amount of ₹ 0.24 crore towards replacement of critical height OHE to Grant No. 04 Repair and Maintenance of Permanent Ways and Works instead of Grant No. 16 – DRF.
 - (vi) In **SECR**, an amounting to ₹ 1.13 crore towards “Overhauling of 08 nos. tamping units of CSM/Duomatic Machine” was booked to DRF under works Grant – 16 instead of Grant No. 7 – Repair and Maintenance of Plant and Equipment.
- **Misclassification of expenditure under Revenue Grants**
 - (i) In **NR**, an amount of ₹ 3.64 crore towards HSD Oil used for Generator Car was booked under Grant No. 10 - Operating

Expenses – Fuel instead of Grant No.08 - Operating Expenses - Rolling Stock and Equipment

- (ii) **NR** Administration. has booked an amount of ₹ 7.08 crore towards the cost of sanitation conservancy of coaches on Grant No. 06 - Repairs & Maintenance of Carriages and Wagons instead of Grant No. 08 - Operating Expenses - Rolling Stock and Equipment.
- (iii) **NR** Administration, has booked an amount of ₹ 1.53 crore towards the cost of mechanized coach cleaning to Grant No.06 - Repairs & Maintenance of Carriages and Wagons instead of Grant No. 08 - Operating Expenses - Rolling Stock and Equipment.
- (iv) In **SR**, amounting to ₹ 18.06 crore (₹ 4,67,78,300, ₹ 8,05,48,686, ₹ 5,30,48,148 and ₹ 2,18,925) towards salary & allowances of Gate Keeper booked under Grant No. 04 Repair Maintenance of Permanent Way and works instead of Grant No. 09 Operating Expenses – Traffic.
- (v) In **SCR**, an amount of ₹ 0.30 crore towards cleaning of shed premises was booked on Grant No. 05 – Repair & Maintenance of Motive Power instead of Grant No. 04 Repair Maintenance of Permanent Way and works.
- (vi) **SCR** has booked an amount of ₹ 0.11 crore towards Pay & Allowances to Grant No 03 – General Superintendence and Services instead of Grant No. 09 Operating Expenses – Traffic.
- (vii) **SCR** has booked an amount of ₹ 0.15 crore towards Pay & Allowances to Grant No 03 – General Superintendence and Services instead of Grant No. 07 Repair and Maintenance of Plant and Equipment
- (viii) In **SER**, an amount of ₹ 0.33 crore towards the cost of transporting of Goods was booked under Grant No.8 Operating Expenses - Rolling Stock and Equipment instead of Grant No. 09 – Operating Expenses – Traffic.

● **Misclassification of expenditure under Capital Grant**

- (i) In **NR**, an amount of ₹ 1.30 crore non-adjustment for the material issued to SSE/P.Way/Cons/AADR debited to Grant No.16 instead of DRF Account
- (ii) In **NCR**, an amount of ₹ 0.45 crore was booked to Grant No. 16 Capital PH – 1500 (Doubling) instead of PH – 1600 – yard remodeling.
- (iii) In **SECR**, expenditure of ₹ 640.29 crore towards Plan Head 14- Gauge Conversion & Plan Head – 11 – New Lines were booked under Grant No. 16 Railway Safety Fund instead of Grant No. 16 - Capital.

- **Misclassification of expenditure under Voted and Charged**
 - (i) In **SR**, an amount of ₹ 0.17 crore towards Arbitration fee was booked under Charged instead of Voted.
 - (ii) In **NWR**, an amount of ₹ 0.024 crore towards Arbitration charge was allocated to Charged Expenditure instead of Voted Expenditure.
- **Misclassification of receipts**
 - (i) In **CR**, an amount of ₹ 0.09 crore towards Interest and Maintenance charges of Railway siding received from the Private Party was booked to Deposit Goods instead of Abstract “Z” Misc. Receipts.

The PAC in its Nineteenth Report (16th Lok Sabha) observed that “The Committee are distressed to find despite their repeated exhortations, the Ministry of Railways have not been able to stop misclassification of expenditure in their future accounts.” Committee further stated that “It seems that no tangible action has been taken by the Ministry of Railways either to fix the responsibility against the responsible officers for such glaring mistakes or to revamp their existing accounting system as had been repeatedly recommended by the PAC. The Committee took a serious view of such callous approach on the part of the Ministry of Railways for not timely detecting such mistakes which led to derail the budgetary exercise. As major function of Accounts Department of Ministry of Railways are stated to be computerised with several applications to strengthen the various accounting activities, the Committee hope that the Ministry would now be able to overcome systemic lacunae/loopholes and progressive elimination of the misclassification syndrome in future”.

MoR in its reply stated that the PAC’s recommendations are noted for strict compliance. Apart from fixing responsibility for lapses at suitable levels MoR is committed for computerisation at various accounting activities to bring about efficiency and expediency in its functioning. It shall always remain the endeavour of MoR to avoid misclassification/mistakes altogether. Despite PAC’s remarks on misclassification, the instances of misclassification were noticed during 2016-17, too. Further, MoR in its ATN on Chapter 2 of the Audit Report No. 19 of 2014 mentioned that instructions have been reiterated to the Zonal Railways for strengthening/tightening the system and sensitize the staff to avoid misclassifications while booking expenditure, besides enforcing accountability for correctness of allocation of expenditure by taking up defaulting staff appropriately.

Despite issue of repeated instructions by the MoR, instances of misclassification have been continuing. Implementation of the instructions needs to be ensured by MoR.

2.5 Irregular Re-appropriation of Funds

As per detailed Demand for Grants (2016-17), a sum of ₹ 7,000 crore was provided under Capital Fund (under Plan Head 2200) to meet the expenditure towards payment of principal component of lease charges to IRFC. MOR, in the Revised Estimate (2016-17) included in the detailed Demands for Grants (2017-18), bifurcated the amount under Plan Head 2200, ₹ 2,000 crore under Capital (GBS) and ₹ 5,000 crore under Capital Fund. Later, at Final modification stage, the amount was re-adjusted and ₹ 4,000 crore was booked under Capital (GBS) and ₹ 3,000 crore under Capital Fund. In this connection, audit observed the following:

- i. As per the existing accounting policy of Railways, the principal component of lease charges is to be made from Capital Fund, Accordingly, the provision of ₹ 7,000 crore for meeting this expenditure was made under Capital Fund at the BE stage.
- ii. No provision for payment of principal component of lease charges was made under Capital (GBS) either in the Original Budget (2016-17) or in the Supplementary Demand for Grants for 2016-17. MOR, without having any sum under 'Capital' under Plan Head 2200, made provision of ₹ 2,000 crore in Revised Estimate (₹ 4,000 crore in Final Grant) which tantamount to re-appropriation of funds. Further, as no expenditure was contemplated under Plan Head 2200 under Capital (GBS) in the budget as approved by the Parliament, this was an irregular re-appropriation.
- iii. As per Para 376 of Indian Railway Financial Code (Volume I), under Grant 16, even though re-appropriation is permissible between various sub-heads of the Grant viz., various plan Heads, no re-appropriation of funds is permissible between Capital, Railway Funds (comprising Capital Fund, Development Fund and DRF).

Re-appropriation of ₹ 4,000 crore to Capital without having any budget provision under Plan Head 2200 by way of re-appropriation was irregular.

MOR stated (December 2017) that they were compelled to redistribute fund for Plan Head 2200 between Capital and Capital Fund in view of resource constraints. They stated that as the capital component of lease charges was an unavoidable liability, part outlay from Capital was provided to discharge the obligation. Also, the rules for allocation of Capital and Capital Fund for payment of capital component of lease charges had been modified in July 2017 wherein it had been provided that capital component of lease charges shall be made from Capital, if adequate funds are not available under Capital Fund. However, the payment shall be first charge on Capital Fund, if sufficient funds are available. They further stated that during 2016-17 onwards there is also no liability on railways to pay dividend to General Revenues.

2.6 Unsanctioned Expenditure

All items of irregular expenditure incurred by IR, such as expenditure incurred in excess of sanctioned estimates, expenditure incurred without detailed estimates and miscellaneous overpayments etc. are noted in books of objectionable items (OIB) by the zonal railways administration and treated as unsanctioned expenditure.

Figure -2.3 Unsanctioned Expenditure



The unsanctioned expenditure, number of the items involved and percentage against total expenditure during the year from 2012-13 to 2016-17 are given in table 2.9 as under:

Table 2.9-Cases of Unsanctioned Expenditure

(₹ in crore)

Year	Total Expenditure	Unsanctioned Expenditure		Percentage of total expenditure
		No. of Items involved	Amount involved	
2012-13	226339	3324	8082	3.57
2013-14	253939	3078	10685	4.21
2014-15	285133	3744	12054	4.23
2015-16	301316	3567	5338	1.77
2016-17	324256	2826	8023	2.47

A review of such expenditure held under objection disclosed an increasing trend from 2012-13 to 2014-15 with increase in number of items. However, in comparison to the previous year, during 2015-16 the number of items has been reduced by 177 items and amount reduced by 55.71 *per cent*. But during 2016-17 a sharp increase in amount of unsanctioned expenditure registered whereas the number of the items reduced from 3567 to 2826.

2.7 Conclusion

The Appropriation Accounts reflects the comparison of the actual expenditure with the amount of grants voted by the Parliament and appropriations sanctioned by the President. Article 114 (3) of the Constitution provides that no money be withdrawn from the Consolidated Fund of India except under appropriations made by law passed in accordance with the provisions of the Article. Further, General Financial Rules 52 (3) stipulates that no disbursements be made which might have the effect of exceeding the total grant or appropriations authorised by the Parliament for a financial year except after obtaining a supplementary grant or an advance from the Contingency Fund.

During 2016-17, Ministry of Railways against the sanctioned grant²⁹ of ₹ 3,62,110.10 crore in respect of 15 Revenue Grants and one Capital Grant,

²⁹ Sum of Original and Supplementary Grants

incurred an expenditure of ₹ 3,24,255.88 crore. An analysis of grant-wise expenditure revealed that the net saving of ₹ 37,854.22 crore was a result of savings of ₹ 37,887.35 crore in all fifteen revenue grants, nine revenue charged appropriations and two segments of capital grant adjusted by an excess of ₹ 33.13 crore in two revenue charged appropriations, one segment of Capital grant and three segment of Capital appropriations. However, the savings were notional and reflected over provision which needs to be controlled.

The Public Accounts Committee (PAC) expressed their displeasure over consistent and unauthorised excess expenditure by the Ministry of Railways. PAC also recommended to the Ministry of Railways to review and overhaul their existing mechanism for estimation of budgetary requirements. However, MoR has taken initiatives on repeated recommendations of the PAC. The excess expenditure has been decreased to the greater extent as compared to the excess expenditure incurred in last three years by the Ministry of Railways.

The cases of misclassification of expenditure have been a regular feature in the accounts of IR. The PAC observed that a large number of cases of misclassification of expenditure under various Grants/Appropriations operated by Ministry of Railways have turned out to be a recurring phenomenon. The Committee recommended that the existing budgetary mechanism in Railways needs to be revamped to overcome systemic lacunae/loopholes and progressive elimination of misclassification syndrome and responsibility fixed on the persons responsible for the apparent lapses.

MoR needs to make concerted efforts to curb/eliminate the instances of misclassification of expenditure by the spending units.

Ministry of Railways has re-appropriated ₹ 4,000 Cr from Railway funds (Capital Fund) on Final Grant (FG) stage and allocated to the Capital (2200- Lease Assets-Capital component) by same amount. MoR has exercised the power of re-appropriation in compliance to its own circular of 25.7.2017 which may not be applicable for the Accounting year 2016-17. MoR should have taken prior approval from the Parliament for re-appropriation of fund from one source to another source of fund under Grant No. 16.

2.8 Recommendations

- *Allocation should be realistic and on conservative side keeping in view the realistic assessment of revenue streams.*
- *Ministry of Railways should impress upon the budget controlling authorities for regular monitoring of expenditure.*
- *Internal control mechanism should be strengthened to reduce the instances of misclassification of expenditure.*
- *The unsanctioned expenditure should be controlled; administration should ensure all unsanctioned expenditure is regularised on priority.*

Chapter 3 Accounting of Assets in Indian Railways

Indian Railways (IR) is a departmental Commercial undertaking³⁰ of Government of India. Provisions of Rule 18 of Government Accounting Rules, 1990 stipulate that financial results of government undertakings should be expressed in normal commercial form so that the cost of service or undertaking may be accurately known. Rule 36 of Government Accounting Rules, 1990 stipulates that department or departmental undertakings of the Government functioning on commercial lines should observe the essential formalities of Commercial Accounts to the extent prescribed by the Government. In such cases, separate commercial accounts of the department or undertaking should be kept outside the regular Government Accounts. Railway accounts should, therefore, not only secure the essential requirement of commercial accounting but also conform to the practices of Government accounting.

IR earns revenues on transporting Goods traffic and carrying Passengers across the country. As per Para 427 of Indian Railway Financial Code (Volume-I), the Appropriation Accounts should be supported by Block Account³¹, Capital Statement, Balance Sheet and Profit and Loss Account of the Railways. IR prepares financial statements such as Profit and Loss Account and Balance Sheet for reporting financial transactions carried out by it.

Audit conducted a study to analyze and evaluate the system of accounting of assets of the Railways, maintenance of assets records, depreciation of assets, condemnation of assets and accounting standards followed by the Zonal Railways, Construction Organization and Workshops including Production Units during 2013-14 to 2015-16. The relevant provisions contained in Indian Railway Code for Accounts Department (Part I), Indian Railway Financial Code (Volume I and Volume II), Indian Railway Code for Engineering Department and Indian Railway Permanent Way and Works Manual etc. and their compliance by the Railways in accounting of assets were examined in audit.

Audit Findings

The aspects related to accounting of assets and exhibition of assets by the Zonal Railways and Production Units in their Block Accounts and Balance Sheets were reviewed in the Zonal Railways and Production Units. The audit findings are discussed in the succeeding paragraphs.

3.1 Block Account

Block Account represents all the physical assets of the Railways financed from different sources viz Capital, Depreciation Reserve Fund (DRF), Development

³⁰ Para 201 of Indian Railways Code for the Accounts Department (Part-I)

³¹ Block Account exhibits all the physical assets financed from different sources

Fund (DF), Capital Fund (CF), Open Line Works-Revenue (OLW-R)³², Railway Safety Fund (RSF) and Special Railway Safety Fund (SRSF).

Block Account is prepared in two Parts-Part I represents the value of assets created from Loan Capital (Gross Budgetary Support) and Part II represents the value of all assets acquired or improvement cost of the assets replaced from Railway's own generation of funds (DRF, DF, and CF) including Loan Capital. Block Account is prepared under the various Plan Heads³³ reflecting the classes of Assets and details of assets acquired, constructed or replaced. It exhibits figures of total expenditure to the end of previous year, expenditure during the year, total expenditure to end of the year and source of fund. All the Zonal Railways and Production Units prepare the Block Accounts. Consolidated Block Accounts of IR for Commercial Lines and Strategic Lines are prepared and printed in the Detailed Appropriation Account (Annexure-G)³⁴ of IR.

3.1.1 Summarized position of Consolidated Block Assets of IR

The Block Accounts of IR for Commercial Lines and Strategic Lines are broadly categorized under certain sub-heads. The value of Assets under these sub-heads are summarised below:

Table 3.1-Value of Assets shown in Block Account of IR (2015-16)

(₹ in crore)

Sub-heads-Category	Commercial Lines	Strategic Lines ³⁵	Total
10-Preliminary Expenses	9,516.45	0.53	9,516.98
20-Land	16,770.14	6.66	16,776.80
30-Structural Engineering Works-Formation 40-Structural Engineering Works-Permanent Way 50-Structural Engineering Works-Bridges, and 60-Structural Engineering Works-Stations and Buildings	2,16,469.44	2,491.90	2,18,961.34
70-Equipment, Machinery and Plant	52,908.07	244.99	53,153.06
80-General Charges-Establishments, and 90-General Charges-Other than Establishments	19,185.62	209.52	19,395.14
1200-Purchase of New Lines	7.86	-	7.86
2100-Rolling Stock	74,023.36	12.83	74,036.19
6100-Investment in Government Commercial Undertakings-Road Services	162.53	-	162.53
6200-Investment in Government Commercial Undertakings-Public Undertakings, and 6300-Investment in Non-Government Undertakings including JVs/SPVs	32,560.92	-	32,560.92

³² New or additional improvement/replacement works (other than Passenger amenities works) costing less than ₹one lakh from revenue.

³³ Plan Heads included activities like New Lines, Gauge Conversion, Doubling, Track Renewals, Railway Electrification, Rolling Stock, Machinery and Plant, Workshops and Production Units etc.

³⁴ Detailed Appropriation Accounts includes Budget and Expenditure under different Grants, Statements, Annexures, Block Account, Balance Sheet, Profit and Loss Account etc. and presented to the Parliament.

³⁵ Strategic Lines-Railway lines of strategic importance constructed at the request of Defence and under operation in four Zonal Railways viz. NR, NWR, WR and NEFR.

7100-Store Suspense, 7200-Manufacturing Suspense, and 7300-Miscellaneous Advance-Capital	17,673.97	84.25	17,758.22
98-Deduct-Miscellaneous Receipts	(-) 10,765.94	(-) 25.22	(-) 10,791.16
Total	4,28,512.42	3,025.46	4,31,537.88

Source: Part II-Detailed Appropriation Accounts-Annexure 'G'-Block Account (Commercial and Strategic)-2015-16

Note-The above figures include expenditure from Capital (Gross Budgetary Support), CF, DRF, DF, RSF, SRSF, OLW-R.

Assets created under different sources of funds in IR at the end of 2015-16 were as under:

Table 3.2-Value of Assets created in IR at the end of 2015-16

Sl. No.	Source	Value of Assets created (₹ in crore)
1	Capital (Loan Account)	2,54,887.91
2	DRF	61,052.56
3	DF	32,921.75
4	CF	50,449.91
5	RSF	14,035.45
6	SRSF	15,756.05
7	OLW-R	1,252.32
8	Miscellaneous ³⁶	1,181.93
	Total	4,31,537.88

Source: Part II-Detailed Appropriation Accounts-Annexure 'G'-Part-II-Statement of Block Account of Indian Government Railways including Loan Account (Commercial and Strategic)-2015-16

From the above, it can be seen that the major source of assets creation in IR was GBS (59.07 per cent) followed by DRF (14.15 per cent) and CF (11.69 per cent) of the total assets created.

3.1.2 Exhibition of Assets in Block Accounts

Review of Block Account of IR revealed the following:

- Fixed Assets such as buildings, track structures etc. are not separately depicted in the Block Account. For maintaining transparency in the Accounts and disclosing the correct picture of all the fixed assets, the existing format of Block Account needs revision so as to exhibit the vital fixed assets for use of various stakeholders.
- In the Block Account, value of assets is shown under certain Plan Heads under each source of fund. As per Indian Railway Finance Code (Volume II), sub-head 20 is exclusively prescribed to record all expenditure on acquisition of land. Railway Board, while framing (in year 2005) the allocation rules for Plan Head 1700-Computerisation and Plan Head 3300-Signal and Telecommunication Works, had not taken into account the implication of allocating sub-head 20 for purposes other than land i.e.1720-Passenger Reservation System and 3320-Structural Works.

³⁶ Contribution from Government of Maharashtra (CIDCO) etc.

Audit observed that expenditure amounting to ₹ 28.51 crore³⁷ was shown under sub-head-1720 and sub-head-3320 in six Zonal Railways during 2013-14 to 2015-16. As a result, the expenditure incurred on heads 'other than land' is also being shown under the sub-head 'land'.

Hence, expenditure under sub-head 20 is not reflecting the actual expenditure on 'land' in the Block Accounts of the Zonal Railways and as well as consolidated Block Account of IR. The inconsistency in allocation rules and non-correlation with prescribed columns of Block Account had resulted in wrong depiction of value of 'land' in the Block Account.

- Capital Works-in-progress³⁸ includes cost of constructing the fixed assets before construction is substantially complete. Expenditure on capital assets which are in the process of construction or near completion though forms part of the total Block Assets; it is not distinctly shown in the Block Account. Hence, the amount of capital expenditure incurred on on-going projects in the Zonal Railways was not ascertainable from the Block Accounts. The format of Block Account needs modification to exhibit the actual expenditure incurred on the on-going projects.

It was observed that there were 432 ongoing projects³⁹ (155 New Line, 42 Gauge Conversion and 235 Doubling) in IR at the end of 2015-16 wherein a sum of ₹ 1,12,744 crore was spent up to 2015-16. However, this fact was not reflected separately as 'Capital works-in-progress' in the Block Accounts of the Zonal Railways and IR.

- Any cost incurred for improvement of assets, which results in increasing the life or the utility of asset, is considered as cost of improvement. Para 430 of Indian Railway Financial Code (Volume-I), provides that the cost of improvement will be excess over the cost of replacement⁴⁰ of an asset at current prices by a like asset or its original cost, estimated if not known, whichever is greater. Para 723 of Indian Railways Code for Engineering Department mentions that in the estimates for replacement and renewal works, it should be clearly stated whether any improvement is involved in the proposed works and if so, the extent of such improvement should be briefly indicated so as to enable the preparation of the Block Account.

Audit observed that the above provisions for working out the cost of assets acquired through Depreciation Reserve Fund and exhibition of

³⁷ Sub-head 1720 - ₹ 6.99 crore (2013-14-CR, NEFR), ₹ 14.39 crore (2014-15-CR, NEFR, NWR, SR) and ₹ 6.32 crore (2015-16-CR, ECoR). Sub-head-3320- ₹ 0.33 crore (2013-14-SR), ₹ 0.27 crore (2014-15-SR, SWR) and ₹ 0.21 crore (2015-16-SWR).

³⁸ Expenditure incurred against ongoing projects

³⁹ Standing Committee Report on Railways (2015-16) Sixteenth Lok Sabha Tenth Report on Pending Projects

⁴⁰ To be worked out on the basis of formulae given in Annexure-I of Para 430 of Indian Railway Financial Code (Volume-I).

improvement element in the Block Account were not adhered to in 12 Zonal Railways and two Production Units⁴¹. Zonal Railways were using different methods for working out the improvement element which resulted in understatement/overstatement of assets in the Block Accounts. The methods for working out the improvement element by the some of the Zonal Railways/Production Units were as under:

- In SCR, there was no uniformity in the exhibition of improvement element in Block Account and the field units were adopting different methods for calculation of improvement element.
- In NR, a fixed percentage of 59.3 was taken into account for working out the improvement element.
- In SWR and RWF, the actual expenditure incurred on the procurement of machinery was taken into account in the block Account and not on the basis of improvement element.

3.2 Exhibition of Assets in Balance Sheet

Balance Sheet is a statement of financial position of the organization indicating its assets, liabilities etc. at a specific point of time. Review of Balance Sheet of IR revealed the following:

- IR does not follow the system of disclosing the significant accounting policies which should form the very basis of preparation of any Financial Statement such as Accounting of Fixed assets, Depreciation and provision of liability for pension etc.
- Balance Sheet of IR depicts Block Assets at their original cost and not at depreciated value. It is, however, reduced from its account at the time of replacement/renewal or condemnation without replacement. Thus, the value of block assets as depicted in the Balance Sheet did not represent the true written down value of the assets.
- Investments⁴² are assets held by an enterprise for earning income by way of dividends, interest and rentals for capital appreciation or for other benefits to the investing enterprise. According to Accounting Standards 13⁴³, the accounting policy, classification of investments {long term investment, current investment, investment property (i.e. investment in land or buildings)} and profit/loss on disposal should be disclosed in the financial statements. Investments made by the Company are reflected on Assets Side of the Balance Sheet of the Company.

⁴¹ CR, ER, ECR, ECoR, NR, NCR, Metro Railway/Kolkata, NWR, SR, SER, SECR, WCR, CLW and RWF.

⁴² Accounting Standards 13 on Accounting for Investments.

⁴³ Issued by the Ministry of Corporate Affairs.

It was observed that Ministry of Railways (MoR) had invested a sum of ₹ 32,560.92 crore in Equity Shares in the various Government Commercial Undertakings, Special Purpose Vehicles (SPVs) and Joint Ventures (JVs) etc. up to 2015-16. However, these investments are being depicted in the Block Accounts under Plan Heads 6200 and 6300 instead of exhibiting distinctly in the Balance Sheets. Thus, the value of investments shown in the Balance Sheet of IR remained understated to that extent.

3.3 Maintenance of records

Rules mentioned in the Codes and Manuals of IR provide that the records/registers in respect of the assets created should be maintained in the Railways. Review of status of maintenance of registers/records in the Railways revealed the following:

3.3.1 Assets Register

In order to prove the value of assets, an Assets Register⁴⁴ is to be maintained wherein the investment cost of all projects should be docketed. In case of projects executed by the Construction Organisation, the Assets Register should be handed over to the Open Line Organisation (i.e. Division) for retention as permanent record. There are different kinds of assets in IR viz Track, Buildings, Rolling Stock, Machinery, Bridges, Signalling and Telecom equipments, Medical equipments etc. These entire assets are to be brought in the Assets Register by the departments concerned.

Audit observed that

- Assets Register was not maintained in seven Zonal Railways⁴⁵ and two other units (CORE and MTP/Chennai).
- In 10 Zonal Railways and four Production Units⁴⁶, the Assets Register was maintained.
- No information regarding maintenance of Asset Register was available in respect of CLW. In DLW and MCF/RBL, maintenance of Asset Register was under preparation.
- In four Zonal Railways (ECR, NWR, WR and Metro Railway/Kolkata) and two Production Units (RWF and RCF), though the Assets Registers were maintained, the same were not updated.

Thus, due to non-maintenance/non-updating of Assets Registers, value of the assets of the Railways shown in the Block Accounts could not be tallied with the initial records. There is possibility of pilferage/loss of assets due to non-maintenance/non-updating of Assets Register by the concerned departments in the Zonal Railways.

⁴⁴ Para 1720 of Indian Railways Code for Engineering Department

⁴⁵ ER, NR, NCR, SR, SCR, SWR and NEFR.

⁴⁶ CR, ECR, ECoR, NWR, SER, SECR, WR, WCR, NER, Metro Railway /Kolkata, RWF, RCF, ICF, DMW.

3.3.2 Land and Building Registers

Land Records Register should be maintained in Chief Engineer's Office⁴⁷ in which details of transactions both acquisition and relinquishment of land should be noted. Land Records Register should also be maintained in Divisional Engineer's Office.

Review of the records of Divisional Engineer's Office revealed that

- Land Records Register was not maintained in four Zonal Railways⁴⁸.
- In three Zonal Railways (ECR, NWR and SCR), the Land Records Register was not updated.

Similarly, in Construction Organization, Land Records Register was not maintained in Chief Engineer's Office in nine Zonal Railways⁴⁹ and CORE. In three Zonal Railways and two Production Units⁵⁰, the Land Records Register was not updated.

Though this matter was also highlighted⁵¹ by Audit in the past, there was no improvement in the system of accounting of land at Divisional and Zonal levels. In absence of proper recording of transactions of land, the value of 'land' shown in the Block Account could not be established from the records maintained in the Zonal Railways.

In terms of Para 220 of Indian Railway Way and Works Manual and Para 1977 of Indian Railway Code for Engineering Department, Zonal Railway Administrations are responsible to maintain a complete up-to-date list of all buildings both residential and service in each Division. Register should be reviewed by the Divisional Engineer every quarter to see that the information is compiled properly and the Register is maintained up-to-date. Up-to-date Building Register should also be maintained in Chief Engineer's Office and Accounts Office. It is the responsibility of the Engineering Department to maintain the list of buildings, grouped separately for each pool of residential buildings and tallied with the capital outlay.

Audit observed that Building Register was not maintained in Accounts Office of all Zonal Railways except three Zonal Railways (CR, ECoR and SER). The Engineering Department (Chief Engineer's Office and Divisional Engineer's Office) of three Zonal Railways (ER, NR and SR) and CORE did not maintain the Building Register. In eight Zonal Railways/Production Units⁵², though the Building Register was maintained, the same was not updated.

⁴⁷ Paragraph 806 (b) of Indian Railways Way and Works Manual

⁴⁸ ER, NR, SR, SWR.

⁴⁹ ER, ECoR, NR, NCR, NWR, SR, SECR, SWR, WR.

⁵⁰ ECR, SCR, NER, ICF/Perambur and RWF/Yehalanka

⁵¹ Paragraph 4.6.2.3 of Chapter 4 of Railway Audit Report No. 24 of 2015 (Volume-II)

⁵² CR, ECR, NWR, SCR, SWR, Metro Railway/ Kolkata, ICF/Perambur and RWF/Yehalanka

Audit further observed that the value of assets (Land and Buildings) indicated in the Block Account was not tallied with the initial records in all Zonal Railways/Production Units except three Zonal Railways and one Production Unit⁵³.

3.4 Acquisition of Rolling Stocks through Indian Railway Finance Corporation

Indian Railway Finance Corporation (IRFC) is dedicated financing arm of the MoR. Since its inception in December 1986, IRFC is raising money from the market to part-finance the plan outlay of IR. Rolling Stock assets funded by the IRFC are leased to the MoR under finance lease⁵⁴. IR pays lease charges to the Company (IRFC). The accounting of rolling stocks of IRFC in the books of accounts of IR was examined in audit and the followings were noticed:

- Lease charges paid to IRFC in respect of these assets have two components-Principal component and interest. Prior to 2005-06, these payments were fully met from Revenue Grant No.9-Operating Expenses-Traffic. However, from 2005-06, the accounting policy in respect of accounting of lease charges payable to IRFC was modified and the principal component was to be charged to Capital Fund (Plan Head 2200-Grant No. 16) and interest charges under Revenue Grant No.9. It was observed⁵⁵ that MoR had violated its accounting policy and made payment of principal component of ₹ 12,629.49 crore from Gross Budgetary Support (i.e. Capital) during 2011-12 to 2013-14. MoR admitted its aberration and from 2014-15, it restarted making payment of principal component from its own resource i.e. Capital Fund. Since the expenditure of ₹ 12,629.49 crore on principal component of lease charges was met from Capital, the same was reflected in the Block Account under source of fund 'Capital'. It was observed that during 2016-17, MoR had again made a payment of ₹ 3,999.99 crore towards principal component of lease charges to IRFC from Gross Budgetary Support (i.e. Capital) which was in violation of accounting policy.
- Expenditure on acquisition of Rolling Stocks is accounted for and depicted under Plan Head 2100 and shown in the Block Accounts. As per consolidated Block Account (2015-16), value of Rolling Stocks in IR was at ₹ 45,831.73 crore. Till March 2016, rolling stock assets (8,390 Locomotives, 45,545 Passenger Coaches, 2,04,456 Wagons, 85 Track Machines and Cranes) valued at ₹ 1,37,037 crore have been added to the

⁵³ NEFR, SWR, WR and DMW/ Patiala

⁵⁴ Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

⁵⁵ Audit comments made in Para No. 1.11 of Report No.53 of 2015-Union Government (Railways)-Railways Finances

asset base of the IR with funding assistance from IRFC. However, the assets leased by IRFC to Railways which accounted for two-third of the total rolling stock of IR had not been showed as disclosure in the Block Account of the Railways.

- As per Block Account (2015-16), a sum of ₹ 35,770.27 crore was paid to IRFC towards principal component of lease charges from Capital Grant (Capital: ₹ 12,629.49 crore and Capital Fund: ₹ 23,140.78 crore). As per disclosure made below the summarised Balance Sheet (2015-16)⁵⁶, the cumulative capital component of lease charges to IRFC stood at ₹ 48,470.94 crore including ₹ 12,188.66 crore (Provisional) paid up to March 2005 from revenue. Thus, ₹ 36,282.28 crore (₹ 48,470.94 crore - ₹ 12,188.66 crore) was paid from Capital Grant, whereas the Block Account depicts ₹ 35,770.27 crore paid to IRFC from Capital Grant. There is variation of ₹ 512.01 crore between the figures of payment of principal component of lease charges to IRFC shown in the Block Account and disclosure given below the summarized Balance Sheet which needs reconciliation.
- The value of assets (rolling stocks) taken on lease from IRFC are not being depicted in the Block Accounts and Balance Sheets of the Railways. However, a disclosure is being made below the Summarised Balance Sheet shown in the Printed Appropriation Accounts-Part-I-Review. As per disclosure below the summarised Balance Sheet (2015-16), total value of assets taken on lease by MoR from IRFC was ₹ 1,39,165.08 crore up to March 2015-16, whereas, the value of assets of IRFC shown in the IR Year Book (2015-16) and IRFC's Annual Report (2015-16) was ₹ 1,37,037 crore and ₹ 1,37,038 crore respectively at the end of 2015-16. Thus, there is variation in the value of leased assets of IRFC which needs reconciliation.
- MoR provides a certificate each year that the leased assets are maintained in good condition as per norms, procedures and standards. The basis of certification of existence of assets by the Zonal Railways could not be verified in audit as no separate Assets Register for rolling stocks procured through IRFC funding was maintained by the Zonal Railways.

3.4.1 Condemnation of Rolling Stock acquired through IRFC funding

Para 704 of Indian Railway Financial Code (Volume-I), envisages writing off the capital cost of assets abandoned without being replaced from the books by contra debit to DRF. Omission of write back adjustments for the

⁵⁶ *Part-I-Review-Appropriation Accounts (2015-16)*

condemned assets would result in avoidable payment of dividend⁵⁷ to general revenues for non-existing assets. Audit observed that no instructions for carrying out the write back adjustments for condemnation of assets acquired through IRFC funding were issued to the Zonal Railways by the MoR. As a result, there was no uniformity in accounting of rolling stocks which were acquired through IRFC funding and condemned in the Zonal Railways. The following instances were noticed:

- In two Zonal Railways (NEFR and WCR), value of condemned rolling stocks acquired through IRFC funding was reduced through write back adjustments. However, no reduction in the value of rolling stocks acquired through IRFC due to condemnation was made in two Zonal Railways⁵⁸.
- In SCR, audit had pointed out (2012-13 and 2013-14) the issue of non-exhibition of value of condemned rolling stock acquired through IRFC funding (₹ 4.97 crore) in the 'Statement of Credits to Capital for retired assets'.
- In SER, no write back adjustment for rolling stocks acquired through IRFC funding amounting to ₹ 38.30 crore condemned during 2013-14 to 2015-16 were carried out and also not shown in the Statement of Credits to capital for retired assets.

Thus, the value of assets (Rolling stock) shown in Block Accounts were overstated due to non-carrying out the write back adjustments for condemned/non-existing rolling stocks.

3.4.2 Distribution of lease charges among the Zonal Railways

The lease charges viz principal component and interest charges are paid to the IRFC for the leased assets. Lease charges are distributed by the Railway Board among the Zonal Railways. Review of distribution of lease charges revealed the following:

- Separate records are not being maintained at Zonal Railways levels to identify and segregate the value of assets acquired through lease.
- The basis of distribution of lease charges (both principal component and interest charges) could not be checked in audit as relevant records were not made available by the Railway Board. MoR vide its letter dated 04 December 2017 stated that apportionment of lease charges amongst the Zonal Railways is done differently for each category of rolling stock as given below:

⁵⁷ *Railway Convention Committee recommended that Dividend to General Revenues by the Railways may be waived off for 2016-17. After merger of Railway Budget with General Budget from 2017-18, GOI decided to exempt Railways from payment of Dividend to General Revenues.*

⁵⁸ *SCR and SER*

Wagons – The apportion of lease component of wagons is done on the basis of targeted wagon holding issued from time to time by the Traffic Transportation Directorate.

Locomotives and Coaches - On the basis of ownership holding as provided in the Annual Statistical Statement by Statistics Directorate.

Track Machines – In the ratio of actual IRFC investment on Track Machine provided to individual Railways.

From the above, it is evident that principal component and interest is not being distributed on the basis of rolling stock etc. actually held by the Zonal Railways. The ad-hoc distribution may result in understatement/over statement of principal component of lease charges in the block account besides impact on operating ratio of the Zonal Railways.

3.5 Accounting and disclosure of EBR (IF) funded projects

IR had started borrowing funds⁵⁹ from institutional sources so as to ensure availability of funds for completion of projects (viz. New Lines, Gauge Conversion, Doubling, Traffic facility works and Railway Electrification etc.) critical for the Railways for generation of revenues. EBR (IF)⁶⁰ funded projects would be treated like Deposit Works for accounting of funds flow. Each Zonal Railway shall operate an account for EBR (IF) funded projects in Deposit Misc. Register.

Audit observed that a sum of ₹ 9,887.95 crore⁶¹ was spent under EBR (IF) during 2015-16. However, this fact was not indicated in the Block Accounts of the concerned Zonal Railways and in the consolidated Block Account of IR for the year 2015-16 as a disclosure for expenditure incurred in the railway projects through EBR (IF) funding.

3.6 Accounting of Rail Vikas Nigam Limited (RVNL) Projects

As per Procedure Office Order (POO) issued vide Railway Board's letter No. 2011/AC.II/1/6/RVNL dated 30-12-2016⁶², ownership of the assets created by RVNL would vest in it, until these are transferred to Railways. After physical completion of a project by RVNL, the asset would be straight away transferred to concerned Zonal Railways. The Zonal Railways will add the value of the created assets in their Block Accounts⁶³.

⁵⁹ Paragraph 1 of P.O.O. No. 2015/FS Cell/1/2 dated 23.10.2015.

⁶⁰ Extra Budgetary Resources-Institutional Finance (Life Insurance Corporation of India)

⁶¹ Expenditure under EBR (IF) during 2016-17 was ₹ 11,465.15 crore as reported by Accounts Directorate of Railway Board.

⁶² In supersession of Procedure Office Order No. 2011/ACII/1/6/RVNL dated 17-12-2013

⁶³ Paragraph 2.2.2 and 2.3.1 to 2.3.3 of Revised P.O.O. No. 2011/AC II/1/6 /RVNL dated 30-12-2016

As per POO, RVNL will provide year wise details of expenditure to Railway Board. The Railway Board will pass on the information to NR. In turn, NR will transfer these projects to respective Zonal Railways. This would involve transfer without financial adjustment from Plan Head 6300 under NR to the appropriate Plan Heads under the concerned Zonal Railways. The Zonal Railways shall debit its relevant plan heads under relevant source of finance. Projects once completed will remain as leased assets in the books of RVNL till the loan is completely repaid even after the project is transferred to Zonal Railway⁶⁴. The cost of asset shall be progressively reduced in the books of RVNL with the capital repayment component and corresponding amount will be added in the Block Account of Zonal Railways every year.

Test check of records revealed that

- Procedure envisaged in the POO was not implemented in eight Zonal Railways⁶⁵.
- Investments in the Government Commercial undertakings, SPV and Joint Ventures etc. are still being shown in the Block Account of NR which clearly indicates that no action has been initiated to transfer the value of projects completed by RVNL to the concerned Zonal Railways to exhibit under the respective plan heads through financial adjustments. Though there was no impact in consolidated Block Account of IR, the Block Accounts of the concerned Zonal Railways remained understated to that extent.

3.7 Depreciation policy of IR

As per the commercial system of accounting, depreciation, representing the reduction in value of assets on account of wear and tear and usage over the estimated economic life, obsolescence, is charged to the income statement every year. Depreciation policy forms an important part of the overall financial accounting. Disclosure of accounting policies for depreciation followed by the enterprise is necessary to appreciate the view presented in the financial statements of the enterprise.

Para 340 of Indian Railway Financial Code (Volume I) mentions that Budget Estimate for appropriation to DRF is based on the replacement programme including arrears of depreciation, if any, to be made good during the following year. Such an estimate is not an isolated exercise for its purpose of annual budget but is a part of the overall resources planning of the railways determined earlier for the five year plan period in consultation with the Planning Commission and the Ministry of Finance and as approved by the Railway Convention Committee. In the Para 340 of Indian Railway Financial Code (Volume I) it has been

⁶⁴ Paragraph 6.3.3 of Revised P.O.O. No. 2011/AC II/1/6 /RVNL dated 30.12.2016.

⁶⁵ ECoR, NWR, SR, SCR, SER, SECR, SWR, WR.

mentioned that even though the estimate of appropriation to DRF is prepared by the Railway Board, the amount finally fixed is distributed over the Railways on the basis of Capital-at-charge⁶⁶ of each Railway at the end of the previous year.

Review of appropriation to DRF, its distribution and status of fund balances in the Zonal Railways and Production Units revealed the following:

- IR depicts assets at their original cost and not at depreciated value. Appropriation to DRF is not being made in a scientific manner taking into account the historical cost, expected useful life, expected residual value of the depreciated asset. MoR is appropriating funds to DRF depending on likely withdrawals, balance available and financial position of the Railways. The system in vogue in IR is to set apart an adhoc sum towards contribution to DRF by charging off to the working expenses. This gives leverage to IR to manage the net revenue surplus at the desired level.
- The appropriation to DRF is distributed Zone-wise in proportion to the Block Account (i.e. value of assets held) of each Zonal Railway instead of proportion of Capital-at-charge of the previous year as provided in the Indian Railway Financial Code. In IR, as a whole, the percentage of appropriation to DRF with reference to Block Accounts worked out to 2.71 (2013-14), 2.38 (2014-15) and 1.53 (2015-16) as shown below:

Table 3.3-Value of Block Assets and Appropriation to DRF

(₹ in crore)

year	Value of assets as per Block Accounts (of the previous year)	Appropriation to DRF during the year	Percentage of appropriation to DRF w.r.t Block Accounts
2013-14	2,98,644.25	8,100	2.71
2014-15	3,34,727.24	7,975	2.38
2015-16	3,79,826.02	5,800	1.53

Source: Part II-Detailed Appropriation Accounts-Annexure 'G'-Block Account (Commercial and Strategic)-2015-16 and DRF Account.

Thus, the appropriation to DRF was not being made by IR in a well founded manner resulting in backlog of replacement and renewal of over aged assets in the railway system. MoR admitted⁶⁷ that appropriation to DRF should be made in a well founded manner. Also, the Railways have a very large assets base whereas the financial position of the Railways has not remained stable most of the times so as to permit appropriation to DRF as per a set formula. However, all along, endeavour has been to ensure maximum appropriation to DRF permissible by the Railway financial position in a year.

- The average life of various category of assets (Civil Engineering Assets, Mechanical Assets, Signalling and Telecommunication Assets and Electrical Assets) are mentioned in the Para 219 of Indian Railway

⁶⁶ Capital-at-charge represents Central Government's investment in Railways by way of loan capital and value of assets thus created

⁶⁷ Action Taken Note on Para 11 of Report No. 53 of 2015-Railways Finances (September 2016)

Financial Code (Volume I). Thus, based on the average life of assets, appropriation to DRF needs to be provided to replace/renew of worn-out assets in time.

- Due to less appropriation and more withdrawal from the fund, there was negative balance under DRF in nine Zonal Railways and three Production/other units⁶⁸ at the end of 2015-16. MoR, in its reply, had stated (July 2017) that distribution of DRF is done proportionately on the basis of the Block Account whereas outgo from the fund is need based. Hence, the negative balance in some Zonal Railways cannot be ruled out which are offset by the positive balances on the other railways. The contention of MoR is not tenable as the appropriation to DRF is charged to the working expenses which ultimately affect the Operating Ratio of the Railways. Also, the withdrawal from the fund is equally important to timely renew/replace the over aged assets.
- There was a meagre balance of ₹ 32.78 crore in DRF at the end of 2015-16⁶⁹. The throw forward value of assets to be replaced from DRF (up to 2015-16) was ₹ 41,274.49 crore⁷⁰. Non-availability of funds under DRF to replace the over aged assets is indicative of weak financial health of IR. MoR needs to appropriate required funds under DRF so as to clear the huge backlog of renewal and replacement of over aged assets in railway system for safe running of trains.

3.8 Accounting Reforms in IR

IR had taken up a project (February 2006) on Accounting Reforms for implementation of practices which are in line with the commercial accounting and reporting. The project was to be completed in 30 months. Delay in submission of Report by the consultants and its acceptance by the MoR was commented upon in the Audit Reports⁷¹. Though the consultants had submitted their Report in July 2010, there were number of limitations and gaps with reference to Terms of Reference (TOR)⁷². After rounds of further consultations, in July 2013, the consultants agreed to address the gaps and limitations. The revised Report was circulated to all the Directorates of Railway Board in June 2014 for comments. The consultants were asked to test the proposed

⁶⁸ CR,ER,NCR,SCR,SER,SECR,SWR,WR,WCR,,ICF,CORE,MTP/Chennai

⁶⁹ DRF balance at the end of 2016-17: ₹ 450.50 crore

⁷⁰ Throw forward value of assets (up to 2016-17) estimated at ₹ 47,679 crore

⁷¹ Para 3.5 of Audit Report No.33 of 2010-11-Union Government (Railways)-Railways Finances and Para 1.12 of Audit Report No.53 of 2015-Union Government (Railways)-Railways Finances

⁷² The terms of reference of the Consultants included ensuring compilation of government accounts as per the accounting standards stipulated by GASAB, compilation of Railways' accounts in commercial accounting form as per Generally Accepted Accounting Principles (GAAP), costing of train operations and ensuring activity based unit costing for cost analysis and cost control management.

recommendations in the field units through pilot study in one Division. However, the consultants had reservations on this, as a pilot study was not covered in the TOR.

In December 2014, MoR engaged Accounting Research Foundation of the Institute of Chartered Accountants of India (ICAI) to validate the Accounting Reforms Report of the consultants, conducting pilot study and compiling the detailed Accrual Accounting Manual for the propose of implementation of accrual based commercial accounting in the Zonal Railways and Production Units. While the pilot study had been completed in NWR (October 2016), the same is in advanced stage of completion in RCF. MoR has planned to roll out all the three Modules⁷³ of Accounting Reforms by February/March 2019 across IR.

3.9 Conclusion

Financial Statements are a structured representation of the financial position and financial performance of an organisation. The objective of financial statements is to provide information about the financial position, financial performance and cash flow of an organisation that is useful to a wide range of users in making economic decisions. Thus, a complete set of financial statements consist of Balance Sheet, Income Statement/Profit and Loss Account and notes comprising summary of significant accounting policies, schedules and notes to the financial statements.

IR, as a departmental commercial undertaking, though prepares Balance Sheet and Profit and Loss Account besides Block Account, does not disclose the significant accounting policies which forms the basis of preparation of financial statements like accounting of fixed assets, depreciation, valuation of investments etc. As a result, key information like capital works-in-progress, depreciated value of assets, investments in property, plant and machinery, improvements in utility of assets etc. are either absent or cannot be recognized easily from the financial statements.

The formats of Block Account and Balance Sheet have not been revised to distinctly exhibit the capital works-in-progress in Block Account, exhibition of the investments in the Balance Sheet etc. Audit observed that no disclosure of assets (rolling stocks) acquired through IRFC funding and value of projects executed under EBR (IF) funding were incorporated in the Block Accounts and Balance Sheets of the Zonal Railways and IR as well. Assets Registers, Land and Building Registers etc. were either not maintained in the Zonal Railways and Production Units or maintained but not updated to reflect the true value of assets created.

The system in vogue in IR is to set apart an adhoc sum towards contribution to DRF by charging off to the working expenses. The present policy results in under

⁷³*Module-1-Accrual Accounting, Module-2-Performance Costing, Module-3-Outcome Budgeting*

provisioning of depreciation and inadequate maintenance/replacement of assets. Existing policy of depreciation gives leverage to IR to manage Net revenue surplus at a desired level.

3.10 Recommendations

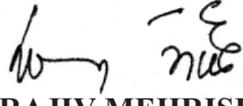
- *Indian Railways needs to ensure that Block Accounts and Balance Sheets of Zonal Railways and Production Units should reflect the true value of the assets duly supported by Assets Registers. Preparation of Assets Registers should be made mandatory for each Zonal Railways and Production Units.*
- *Indian Railways should follow the system of disclosing the significant accounting policies forming the basis of preparation of financial statements such as accounting of fixed assets, depreciation, investments etc.*
- *Ministry of Railways needs to make provision for depreciation in a more scientific method by adopting relevant Accounting Policies.*

New Delhi
Dated: 05 February 2018


(NAND KISHORE)
Deputy Comptroller and Auditor General

Countersigned

New Delhi
Dated: 06 February 2018


(RAJIV MEHRISHI)
Comptroller and Auditor General of India

Glossary of Terms

<i>Terms</i>	<i>Description</i>
<i>17-Zones of Indian Railways</i>	<i>Central Railway (CR), Eastern Railway (ER), East Central Railway (ECR), East Coast Railway (ECoR), Northern Railway (NR), North Central Railway (NCR), North Eastern Railway (NER), Northeast Frontier Railway (NFR/NEFR), North Western Railway (NWR), Southern Railway (SR), South Central Railway (SCR), South Eastern Railway (SER), Southeast Central Railway (SECR), South Western Railway (SWR), Western Railway (WR), West Central Railway (WCR) & Metro Railway, Kolkata (MR)</i>
<i>8-Railway Production Units</i>	<i>Chittaranjan Locomotive Works (CLW), Chittaranjan; Diesel Locomotive Works (DLW), Varanasi; Integral Coach Factory (ICF), Chennai; Rail Coach Factory (RCF), Kapurthala; Rail Wheel Factory (RWF), Yelahanka; Rail Wheel Plant (RWP), Bela; Diesel Loco Modernisation Works (DMW), Patiala, Rail Coach Factory (RCF), Raebareilly;</i>
<i>Average lead</i>	<i>Average haul of a passenger or a tonne of freight</i>
<i>Branch lines</i>	<i>Broad Gauge and Metre Gauge lines joined to the main lines at one end only and all metre gauge lines</i>
<i>Broad Gauge</i>	<i>It is a rail gauge (1,676 mm) commonly used in India of movement of rail traffic</i>
<i>Capital-at-charge</i>	<i>The capital-at-charge represents the Central Government's investment in Railways by way of loan capital and value of the assets thus created.</i>
<i>Compound Annual Growth Rate</i>	<i>Rate of growth over a period of years, taking into account the effect of annual compounding.</i>
<i>Demand Recoverable</i>	<i>Unrealized earnings recoverable on account of rent/lease of land and buildings, interest and maintenance charges of sidings etc.</i>
<i>Dividend</i>	<i>Under the 'Separation Convention' Indian Railways (IR) is required to pay dividend to the general revenues on the capital advanced by the Government of India (GoI) at a rate determined periodically by Railway Convention Committee (RCC).</i>
<i>Extra Budgetary Resources</i>	<i>Resources of IR other than general budget support and internally generated resources</i>
<i>Gross Domestic Product</i>	<i>The total market value of all final goods and services produced in a country in a given year,</i>
<i>Gross Traffic Receipts</i>	<i>Receipts of railways through its operations</i>

<i>Meter Gauge</i>	<i>It is a rail gauge (1,000 mm) still used in some parts of India of movement of rail traffic</i>
<i>Minor Heads</i>	<i>Classification structure to record receipts and expenditure of the government</i>
<i>Narrow Gauge</i>	<i>It is a rail gauge (762 or 610 mm) still used in some parts of India of movement of rail traffic</i>
<i>National Projects</i>	<i>Projects of national importance being executed through additional budgetary support from GoI.</i>
<i>Net Tonne Kilometre (NTKM)</i>	<i>Unit of measure of freight traffic which represent the transport of one tonne goods (including the weight of any packing, but excluding the weight of the vehicle used for transport) over a distance of one kilometre</i>
<i>New lines</i>	<i>Construction/laying of new railway links/lines not existed earlier</i>
<i>Operating Ratio</i>	<i>The ratio of working expenses (excluding suspense but including appropriation to Depreciation Reserve Fund and Pension Fund) to gross earnings.</i>
<i>Ordinary Working Expenses</i>	<i>Expenditure on administration, operation, maintenance and repairs, contribution to Depreciation Reserve Fund and Pension Fund</i>
<i>Plan Expenditure</i>	<i>Expenditure incurred for creation, acquisition, construction and replacement of assets</i>
<i>Revenue Expenditure</i>	<i>Expenditure incurred for day to day operations, maintenance of railways including dividend payment</i>
<i>Strategic lines</i>	<i>Railway lines of strategic importance constructed at the request of Defence</i>
<i>Traffic Suspense</i>	<i>Unrealised operational earnings of the railways</i>
<i>Un-economic Branch Lines</i>	<i>Branch lines where revenue generated is less than the operational cost</i>
<i>Works Budget</i>	<i>Estimates prepared for construction, acquisition and replacement of assets</i>
<i>Route Kilometre</i>	<i>The distance between two points on the railways irrespective of the number of lines connecting them, viz single line, double line etc.</i>
<i>Total Working Expenditure</i>	<i>Ordinary working expenditure and appropriation to Depreciation Reserve Fund and Pension Fund</i>
<i>Staff Productivity</i>	<i>It is measured in terms of volume of traffic handled (in terms of NTKM) per thousand employees.</i>
<i>Capital Output Ratio</i>	<i>The amount of capital employed to produce one unit of output (Total Traffic in NTKMs)</i>
<i>Net Surplus</i>	<i>Difference between the gross earnings and the working expenses after the payment of dividend to general revenues</i>

<i>Other Coaching Earnings</i>	<i>Earnings from transportation of parcels, luggage and post office mail and catering etc.,</i>
<i>Passenger Earnings</i>	<i>Earnings from carrying passengers on rail</i>
<i>Freight Earnings</i>	<i>Earnings from carrying goods on rail</i>
<i>PAC</i>	<i>Public Accounts Committee</i>
<i>RDSO</i>	<i>Research, Designs & Standard Organization</i>
<i>RITES</i>	<i>Rail India Technical and Economic Services</i>
<i>RSP</i>	<i>Rolling Stock Programme</i>

Appendix-1
Status of Railway Funds
(Refer Para 1.10)

Fund	Description
Depreciation Reserve Fund	The opening balance in this fund account as on 1 April 2016 was ₹ 32.78 crore. Appropriation to this fund is met out of the revenues earned by IR. This fund receives interest at the rate of dividend payable to general revenues. However, no interest was provided under this fund during the year. This fund is meant for replacement and renewal of over-aged assets. An amount of ₹ 5,400 crore (including ₹ 200 crore for Production Units) was appropriated to this fund. The fund closed at ₹ 450.50 crore at the end of 2016-17 by expending an amount of ₹ 4,982.01 crore on replacement and renewal of assets. Appropriation to DRF was more than budgeted provision by 62.50 per cent.
Pension Fund	The opening balance in this fund account as on 1 April 2016 was ₹ 5,657.30 crore. Appropriation to this fund is also met out of the revenues earned by IR. The fund receives interest at the rate of dividend payable to general revenues. However, no interest was provided under this fund during the year. Appropriation to the fund during 2016-17 was less than the withdrawals. The available balance under the fund at the close of the year was ₹ 594.76 crore as on 31 March 2017. Appropriation to Pension Fund was less than budgeted provision by 17.48 per cent.
Development Fund	The fund account as on April 1, 2016 stood at ₹ 390.39 crore. Appropriation to this fund is met as a first charge on revenue surplus available with IR after meeting out the total working expenditure. In 2016-17, revenue surplus to the tune of ₹ 2,515 crore was appropriated to this fund. Capital expenditure amounting to ₹ 2,497.83 crore was incurred out of this fund during 2016-17. The fund closed at ₹ 402.63 crore at the end of 2016-17. Appropriation to Development Fund was as per budgeted provision.
Capital Fund	The fund account as on April 1, 2016 stood at ₹ 907.43 crore. Appropriation to this fund is also met from revenue surplus available with IR after meeting out the total working expenditure. In 2016-17, revenue surplus to the tune of ₹ 2,398 crore was appropriated to this fund. Capital expenditure amounting to ₹ 3,000 crore was incurred out of this fund during 2016-17. The fund closed at ₹ 305.43 crore at the end of 2016-17. Appropriation to Capital fund was less than budgeted provision by 58.30 per cent.
Railway Safety Fund	The opening balance in this fund account as on April 1, 2016 was ₹ 15.52 crore. An amount of ₹ 10,732.03 crore was utilized in 2016-17 as against the same amount credited to this fund. The fund account closed at ₹ 23.26 crore at the end of 2016-17.
Debt Service Fund	The fund was opened in year 2013-14 for making repayment of loans and debt servicing i.e. loans taken by the Ministry of Railways from World Bank and other multilateral agencies, supplement payment of pay and allowances and pension due to implementation of recommendations of Pay Commission. The opening balance in this fund account as on April 1, 2016 was ₹ 3,803.26 crore. No amount was appropriated to this fund in 2016-17. Expenditure amounting to ₹ 3,003.03 crore was incurred from this fund during the year 2016-17. The fund closed at ₹ 800.23 crore as on 31 March 2017.

Source–Indian Railways Appropriation Accounts–Part-II–Detailed Appropriation Accounts

Appendix-2- Appropriation Accounts 2016-17
(Reference Paragraph No.2.1)

(In units of ₹)

Number and name of the Grant/ Appropriation	Original Grant/ Appropriation	Supplementary	Final Grant/ Appropriation	Actual Expenditure	Excess (+)/ Savings (-)	
1	Revenue – Railway Board					
	Voted	4000100000	0	4000100000	3490124395	-509975605
2	Revenue – Miscellaneous Expenditure (General)					
	Charged	21100000	0	21100000	21100000	0
	Voted	12978900000	0	12978900000	9921094442	-3057805558
3	Revenue – Working Expenses – General Superintendence and Services					
	Charged	13160000	0	13160000	11939914	-1220086
	Voted	83605268000	0	83605268000	75593006398	-8012261602
4	Revenue – Working Expenses – Repairs and Maintenance of Permanent Way and Works					
	Charged	15007000	2154000	17161000	17938229	777229
	Voted	137106786000	0	137106786000	128619226679	-8487559321
5	Revenue – Working Expenses – Repairs and Maintenance of Motive Power					
	Charged	2000000	0	2000000	377241	-1622759
	Voted	63175964000	0	63175964000	60286945100	-2889018900
6	Revenue - Working Expenses – Repairs and Maintenance of Carriages and Wagons					
	Charged	2000000	0	2000000	833508	-1166492
	Voted	143113229000	0	143113229000	140270273155	-2842955845
7	Revenue - Working Expenses – Repairs and Maintenance of Plant and Equipment					
	Charged	5000000	2145000	7145000	7197739	52739
	Voted	81119068000	0	81119068000	73711490352	-7407577648
8	Revenue - Working Expenses – Operating Expenses – Rolling Stock and Equipment					
	Charged	5000000	0	5000000	93684	-4906316
	Voted	127516286000	0	127516286000	116818167704	-10698118296
9	Revenue - Working Expenses – Operating Expenses – Traffic					

	<i>Charged</i>	20004000	0	20004000	4040452	-15963548
	Voted	263080126000	0	263080126000	240070197574	-23009928426
10	Revenue - Working Expenses – Operating Expenses - Fuel					
	<i>Charged</i>	100000	0	100000	0	-100000
	Voted	234172325000	30500000000	264672325000	264272637177	-399687823
11	Revenue – Working Expenses – Staff Welfare and Amenities					
	<i>Charged</i>	5510000	0	5510000	137896	-5372104
	Voted	66220468000	0	66220468000	59511325790	-6709142210
12	Revenue - Working Expenses – Miscellaneous Working Expenses					
	<i>Charged</i>	1391967000	118026000	1509993000	1315288793	-194704207
	Voted	68186020000	0	68186020000	60298787417	-7887232583
13	Revenue - Working Expenses – Provident Fund, Pension and Other Retirement Benefits					
	<i>Charged</i>	10045000	0	10045000	9325951	-719049
	Voted	471697550000	0	471697550000	422531118257	-49166431743
14	Revenue - Appropriation to Funds – Depreciation Reserve Fund, Development Fund, Pension Fund, Capital Fund, Debt Service Fund					
	Voted	542793500000	0	542793500000	452129993666	-90663506334
15	Dividend to General Revenues, Repayment of Loans taken from General Revenues and Amortisation of Over-Capitalisation					
	Voted	97312900000	0	97312900000	0	-97312900000
16	Assets – Acquisition, Construction and Replacement - Other Expenditure – Capital					
	<i>Charged</i>	491700000	1708343000	2200043000	2280518428	80475428
	Voted	900703500000	15194525000	915898025000	901866257675	-14031767325
	Assets – Acquisition, Construction and Replacement – Other Expenditure – Railway Safety Fund					
	<i>Charged</i>	0	170872000	170872000	192285542	21413542
	Voted	107803000000	0	107803000000	108027229844	224229844
	Assets – Acquisition, Construction and Replacement - Other Expenditure – Railway Funds					
	<i>Charged</i>	130800000	75955000	206755000	211154326	4399326

	Voted	166630565000	0	166630565000	121068744811	-45561820189
	Grand Total					
	Charged	2113393000	2077495000	4190888000	4072231703	-118656297
	Voted	3571215555000	45694525000	3616910080000	3238486620437	-378423459563
	Grand Total	3573328948000	47772020000	3621100968000	3242558852140	-378542115860

