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Report of the  
Comptroller and Auditor General of India  
for the year ended March 2011



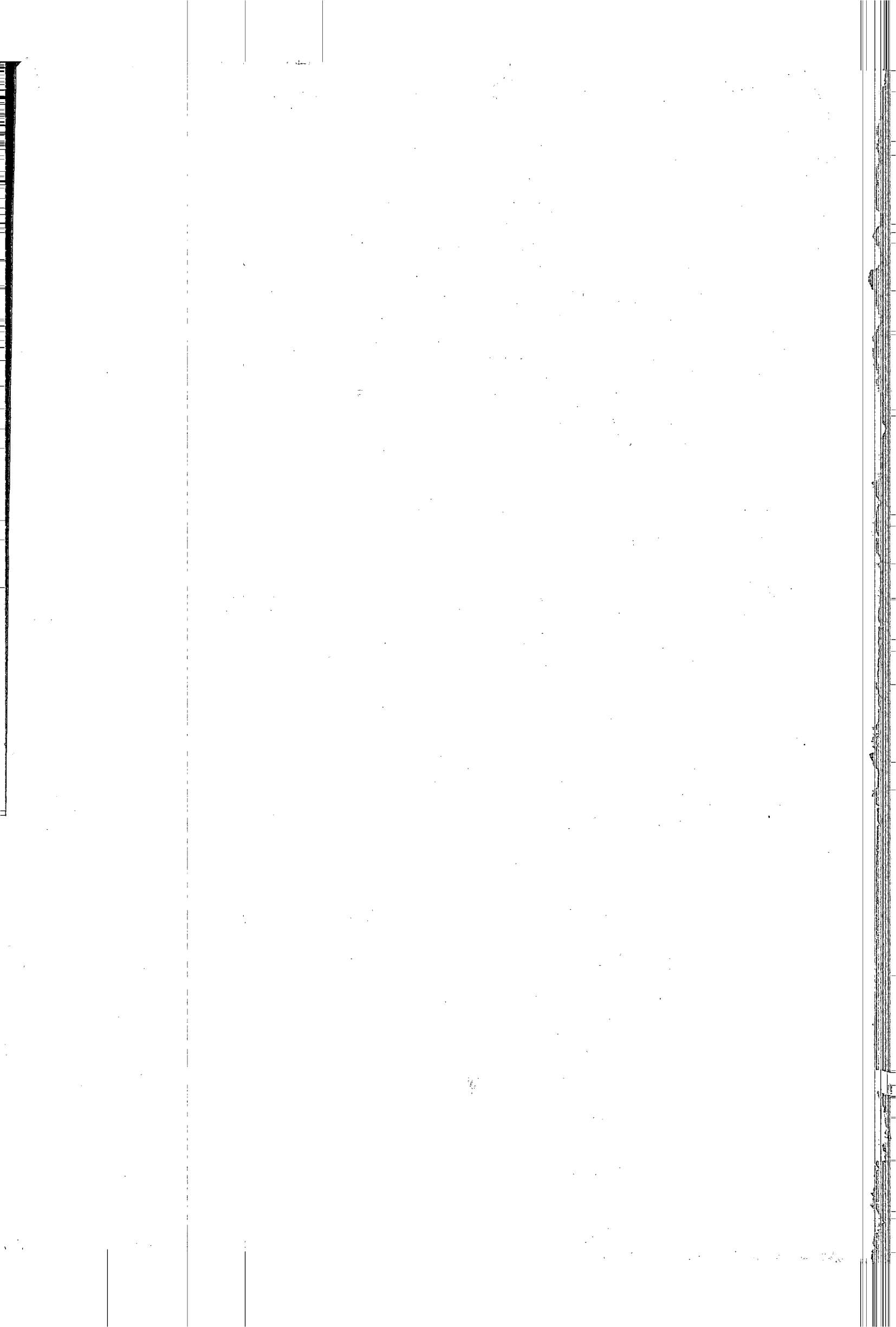
Union Government (Railways)  
Railways Finances  
Report No. 3 of 2012-13

Report of the  
Comptroller & Auditor General  
of India

*for the year ended March 2011*

Laid in Lok Sabha/Rajya Sabha on 15 मई 2012  
MAY 2012

**Union Government (Railways)**  
**Railways Finances**  
Report No. 3 of 2012-13





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## **PREFACE**

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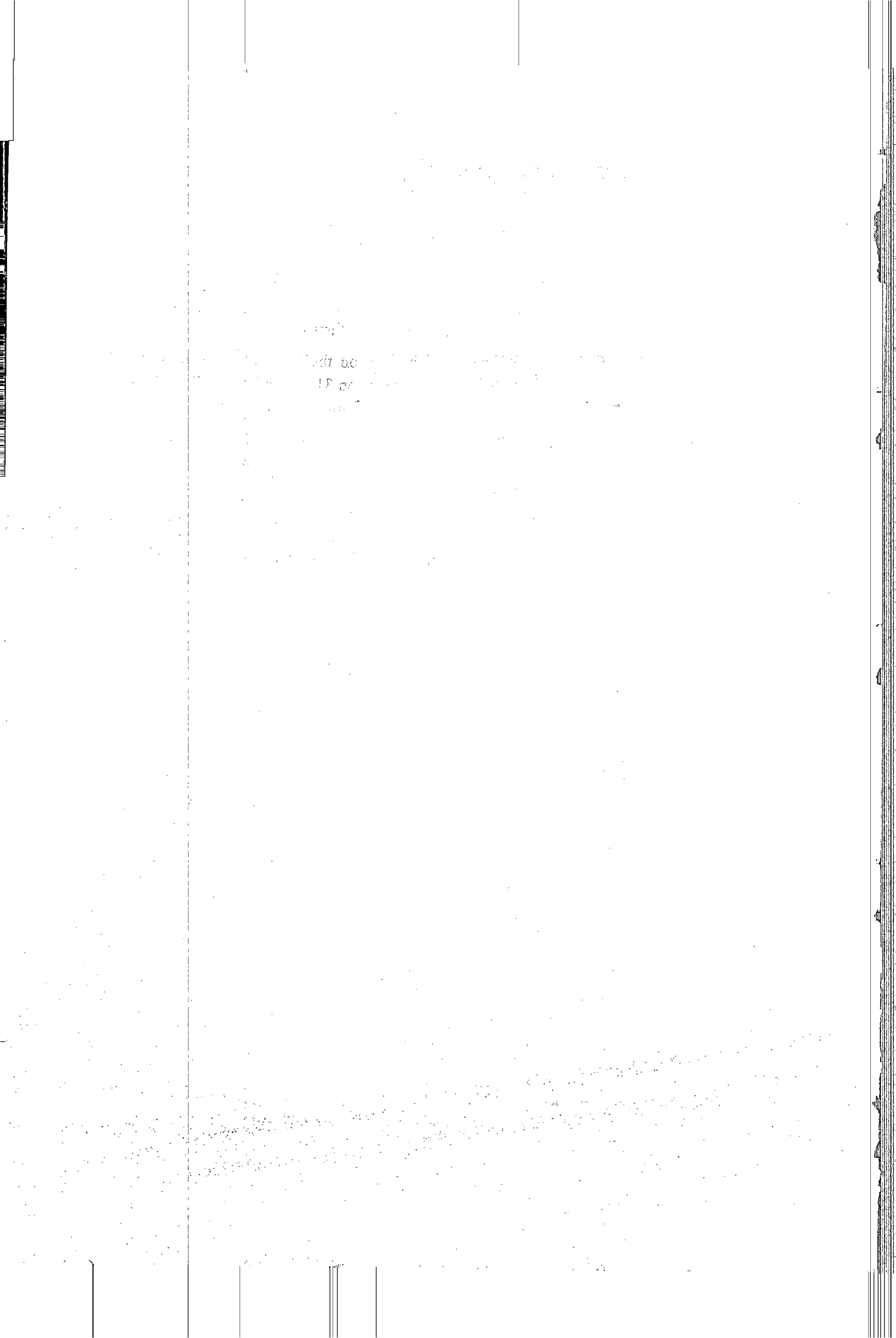
This Report has been prepared for submission to the President of India under Article 151 of Constitution of India.

Based on the audited accounts for the year ended 31 March 2011, this report provides an analytical review of the Accounts and Finances of the Indian Railways (IR). The report is structured in three chapters.

**Chapter 1** covers the audit findings on the finances of IR and makes an assessment of the fiscal status of IR as on 31 March 2011. Various indicators on earnings, expenditure, reserves, operational efficiency etc. are analyzed.

**Chapter 2** covers the audit findings on the Appropriation Accounts of IR and analysis of management of allocated resources. This chapter also analyzed the reasons for savings/excesses against the authorization given by Parliament.

**Chapter 3** covers the various aspects of applicability of Fiscal Responsibility and Budget Management (FRBM) Act, 2003 to Railway Budget and issues relating to Transparency in Budgeting and Financial management of IR. It also includes audit comments on financial transactions impacting various aspects of Transparent Budgeting.





## **EXECUTIVE SUMMARY**

### **Background**

IR is a departmental commercial undertaking of the Government of India. It consists of 64,460 route kms<sup>1</sup> on which more than 19,186 trains ply, carrying about 21 million passengers and hauling nearly 2.5 million tonne of freight everyday. Policy formulation and overall control of the Railways is 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 six 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. Though the Railway Budget is presented to Parliament separately, the figures relating to the receipts and expenditure of IR are also shown in the General Budget, as Railway Budget forms part of the total budget of the Government of India.

### **Summary of Conclusions**

Report of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2010 (Report No. 33 of 2010-11) highlighted that during 2009-10, the gross traffic receipts fell short of budgetary projections by two *per cent* (₹ 1,455 crore). On the other hand, total working expenditure exceeded the budgetary provisions by two *per cent* (by ₹ 1,250 crore), despite a reduction in appropriation to Depreciation Reserve Fund (DRF) by around 59 *per cent* (₹ 3,138 crore). The net surplus after meeting dividend liability declined in 2009-10 by cent per cent (by ₹ 4,456.03 crore) over the previous year. Consequently, the operating ratio of IR declined from 90.46 *per cent* in 2008-09 to 95.28 *per cent* in 2009-10. The Report also highlighted the declining balances in reserve funds of IR. Total reserve balances, declined by 68 *per cent* (by ₹ 10,623 crore) by the end of 2009-10 as compared to 2008-09. The financial performance of IR continued to be poor in 2010-11.

During 2010-11, the gross traffic receipts increased by 8.71 *per cent* over the previous year. However, total revenue receipts, increased by 8.35 *per cent* which was below the Compound Annual Growth Rate (CAGR) of 10.53 *per*

<sup>1</sup> *Route-kilometre- The distance between two points on the railway irrespective of the number of lines connecting them viz., single line, double line, etc.*

cent during the period 2006-10. The growth rate of freight earnings and passenger earnings was 7.42 per cent and 9.81 per cent respectively over the previous year. However, these were again below the CAGR achieved during 2006-10. The Operating Ratio was almost static as compared to the previous year.

Net surplus after meeting dividend liability stood at ₹ 1,404.89 crore in 2010-11. It was less than the budget estimates by 56 per cent despite a reduction in the appropriation to DRF by 27 per cent and a growth of revenue expenditure at 6.78 per cent which was well below the CAGR of 17.80 per cent achieved during the period 2006-10.

Depreciation Reserve Fund and Pension Fund closed in 2010-11 with negligible balances of ₹ 18.9 crore and ₹5.33 crore respectively. Development Fund and Capital Fund closed in 2010-11 with negative balances of ₹ 1,213.34 crore and ₹ 885.71 crore respectively. Balances in the reserve funds stood at ₹ 342.52 crore at close of the year 2010-11. These balances declined by 93 per cent (₹4,690 crore) over the previous year. Thus, despite ending the year with a higher net surplus over the previous year, total fund balances deteriorated substantially, indicating a continued poor financial performance by IR in the current year and risk for future sustainability.

Ministry of Finance refused to extend a loan to fund the negative balances in Development and Capital Funds. The meager/negative balances in reserve funds will adversely impact the safety aspects and future expansion of IR's existing services.

IR was unable to meet its operational cost of passenger and other coaching services. During 2009-10, there was a loss on passenger and other coaching services of ₹ 20,080.47 crore. However, freight services earned a profit of ₹ 18,986.89 crore which indicated that IR is actually incurring a loss on its core activities. The above issues have been regularly highlighted in the preceding Reports of Comptroller and Auditor General of India-Union Government (Railways).

IR incurred ₹ 3,052.78 crore more than the authorization given by Parliament in 10 revenue grants and five appropriation, despite obtaining supplementary provisions in nine of these grants and four appropriations.

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 passed by an act of Parliament on August 26, 2003 provides that Central Government shall lay in each financial year before both houses of Parliament the statements of fiscal policy along with the annual financial statement and demands for grants namely Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement and Macro-economic Framework Statement. Ministry of Railways

do not present any such statements. No midterm assessment of receipts and expenditure is placed by Minister-in-charge of Railways before Parliament as required under the FRBM Act.

The follow up action on the announcements made in the Railway Minister's budget speech were weak. No proper monitoring system appears to have been set in place as seen from the gaps in the Outcome Budget. Further, the status of implementation of Railway Minister's budget announcements does not form part of the budgetary documents.

Part of the plan expenditure of IR is financed through extra budgetary resources. Further, IR has also made a number of implicit commitments to its PSUs. The budgetary documents failed to disclose these aspects transparently.

### ***Major Recommendations***

Recommendations on various aspects of Railway finances are given in the relevant chapters of this report; some of the major recommendations are summarized below:

- The IR is facing a severe financial crunch and their accumulated funds have eroded by 93 *per cent*. The way forward for IR is to improve its finances and rationalize both freight and passenger tariffs. It is essential that IR increases its market share in bulk commodities where it has an inherent competitive advantage.
- It is important for the IR to review all capital works in progress and take expeditious decision with regard to closure of projects where there is road connectivity (especially un-remunerative lines), where the progress over the years is absolutely negligible and the need for going ahead with the project is no longer valid. There is a need to focus more on viable projects.
- IR should strengthen its budgetary mechanism and system of expenditure control so that instances of huge savings, expenditure over and above authorization are minimized.
- IR should ensure that the FRBM Act is implemented. This would include presenting the following statements along with the budget
  - Medium-Term Fiscal Policy Statement indicating three-year rolling targets and policy regarding key fiscal indicators like revenue surplus i.e. balance between receipts and expenditure;
  - Fiscal Policy strategy Statement for the current year indicating the policies relating to the prices of services provided , investment strategy for achieving the targeted growth rate



- Macro-economic Framework Statement containing assessment of growth and revenue strategy and the amount of balances available under various Funds for maintaining/replacement of assets and achieving the targeted growth rate.
  - A mid-term review of receipts and expenditure incurred needs to be placed in parliament.
- Follow up action on Railway Minister's speech on the budget needs to be strengthened. Further, the status of implementation of Railway Minister's budget announcements should form part of the Budgetary Documents.

## Chapter-1 State of Finances

This chapter provides a broad perspective of the finances of the Indian Railways (IR) during 2010-11 and analyses critical changes in the major financial indicators relative 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 reports<sup>2</sup> have been used to compare actual performance of IR in 2010-11 vis-à-vis targets set by it.

### 1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of IR fiscal transactions during 2010-11 vis-à-vis the previous year and budget estimates for 2010-11. It provides a broad perspective of the finances of the Railways during the year 2010-11, its comparison with actual of the previous year and deviation of actual receipts and expenditure of this year from the budget estimates.

**Table 1.1 Summary of Receipts and Expenditure of IR**

(₹ in crore)

Sl. No.	Details	Actual 2009-10	Budget Estimates 2010-11	Revised Estimates 2010-11	Actual 2010-11
1	Passenger Earnings	23,488.17 (7.10)	26,126.47	26,126.47	25,792.63 (9.81)
2	Freight Earnings	58,501.68 (9.49)	62,489.33	62,489.33	62,844.72 (7.42)
3	Other Coaching Earnings <sup>3</sup>	2,235.12 (13.36)	2,778.34	2,596.30	2,469.84 (10.50)
4	Sundry Earnings <sup>4</sup>	2,879.68 (15.16)	3,170.81	3,530.34	3,418.27 (18.70)
5	Suspense	-140.68	200.00	98.00	10.17 (-107.23)
6	Gross Traffic Receipts <sup>5</sup> (Item no.1 to 5)	86,963.97 (8.89)	94,764.95	94,840.44	94,535.63 (8.71)
7	Ordinary Working Expenditure <sup>6</sup>	65,810.35 (21.09)	65,000.00	67,000.00	68,139.22 (3.54)
8	Appropriation to				
	Depreciation Reserve Fund	2,187.00 (-68.76)	7,600.00	5,700.00	5,515.00 (152.17)

<sup>2</sup> Budget documents, Annual Statistical Statements of Indian Railways.

<sup>3</sup> Other coaching earnings from transportation of parcels, luggage and post office mail etc

<sup>4</sup> Sundry Earnings from renting, leasing of building, catering services, advertisements, interest, maintenance of sidings and level crossing, re-imburement of loss on strategic lines etc

<sup>5</sup> Gross Traffic Receipts-Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR

<sup>6</sup> Operating Expenses of IR.



	<i>Pension Fund</i>	14,918.00 (42.21)	14,500.00	14,500.00	15,820.00 (6.05)
9	<i>Total Working Expenditure (Item no.7 and 8)</i>	82,915.35 (15.42)	87,100.00	87,200.00	89,474.22 (7.91)
10	<i>Net Traffic Receipts (Item no.6 – 9)</i>	4,048.62 (-49.53)	7,664.95	7,640.44	5,061.41 (25.02)
11	<i>Miscellaneous Receipts<sup>7</sup></i>	2,265.32 (26.05)	2,956.60	2,310.76	2,145.39 (-5.30)
12	<i>Miscellaneous Expenditure<sup>8</sup></i>	769.85 (19.31)	840.00	929.34	860.66 (11.80)
13	<i>Net Miscellaneous Receipt (Item no. 11 – 12)</i>	1,495.48 (29.83)	2,116.60	1,381.42	1,284.73 (-14.09)
14	<i>Net Revenue (Item No.10 and 13)</i>	5,544.09 (-39.57)	9,781.55	9,021.86	6,346.14 (14.47)
15	<i>Dividend Payable to General Revenues</i>				
	<i>Current year</i>	5,543.34 (17.50)	6,608.46	4,917.36	4,941.25 (-10.86)
	<i>Deferred Dividend of previous year</i>	0.00			0.00
	<i>Total Dividend Payment</i>	5,543.35 (17.50)			4,941.25 (-10.86)
16	<i>Net Surplus (Item no. 14 – 15)</i>	0.75 (-99.98)	3,173.09	4,104.50	1,404.89 (187220)
17	<i>Surplus available for appropriation</i>				
	<i>Development Fund</i>	0.75 (-99.95)	2,800.00	2,358.00	1,404.89
	<i>Capital Fund</i>	0.00 (-100.00)	373.09	1,746.50	-----

Source: Explanatory Memorandum on Railway Budgets and Accounts for 2010-11

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

## 1.2 Reliability of Budget Estimates

Accurate forecast of budget is critical to an organization's financial and operational performance. Assessment of how well the financial targets are met depends on how realistic the financial estimates were from the outset. Anticipated Gross Traffic Receipts (GTR) of 2010-11, in all the segments except for passenger and other coaching earnings was achieved. With the higher achievement (0.57 percent) than anticipated/budgeted, in freight earning, the GTR achieved by IR was marginally less than the Budget Estimates of 2011-12 by 0.24 per cent. Ordinary working expenditure increased by around five per cent (₹3,139 crore) whereas the total working expenditure increased by three per cent over the Budgeted Estimates. There was a reduction in appropriation to DRF by around 27 per cent when

<sup>7</sup> Miscellaneous Receipts comprise of subsidy from GoI towards dividend receipt and other concession, receipts by Railway Recruitment Board etc.

<sup>8</sup> Miscellaneous Expenditure comprised of expenditure on Railway Board, Surveys, Research, Designs and Standards Organization, Other Miscellaneous Establishments of IR, Statutory Audit, Expenditure on Open Line Works (Revenue) etc.



compared to Budget Estimate which resulted into the increase of only three *per cent* in total working expenditure than budgeted/targeted figure. The resultant net revenue was also below the budget projections (35.12 *per cent*), mainly due to increased ordinary working expenditure (5 *per cent*) and more appropriation to pension fund (9.10 *per cent*) than envisaged in the budget 2010-11.

### **1.3 Fiscal Transactions in 2010-11- An overview**

#### **1.3.1 Gross Traffic Receipts (GTR)**

GTR grew in the current year (2010-11) by 8.71 *per cent*, which was slightly lower than the 8.89 *per cent* growth achieved in 2009-10. This was due to decline in growth rate of freight and other coaching earnings in the current year compared to the rate at which they grew in the previous year. This was compensated by the higher growth rates achieved in passenger earnings and sundry earnings as compared to that achieved in previous year.

#### **1.3.2 Ordinary Working Expenditure (OWE)**

Ordinary working expenditure grew by 3.54 *per cent* in 2010-11 over the previous year which was lower than increase of 21.09 *per cent* achieved in 2009-10 as compared to 2008-09. The substantially higher increase in OWE during 2009-10 was due to the implementation of the 6th CPC.

#### **1.3.3 Miscellaneous Receipts and Expenditure**

In the current year (2010-11), miscellaneous receipts declined by 5.30 *per cent* over the previous year whereas miscellaneous expenditure grew by 11.80 percent. As a result, there was overall decline in the net miscellaneous receipts by 14.09 *per cent* over previous year. Net misc. receipts were also significantly below the budget projection by nearly 39 *per cent*.

#### **1.3.4 Net Revenue**

Net revenue in the current year grew by 14.47 *per cent* compared to the decline of 39.57 percent in previous year. Despite increase in Net Revenue, it was below the Budget projections by 35.12 percent mainly on account of lower than targeted growth rate in freight receipts and a decline in the growth rate of miscellaneous receipts.

#### **1.3.5 Dividend Payment**

Dividend payable to the Government of India (GoI) is based on the Capital-at-charge advanced through general budgetary support. IR, in 2009-10, paid dividend at the rate of seven *per cent* as the report of Railway Convention Committee (RCC) on the rate of dividend for 2009-10 was finalized only in December 2010. The report recommended a lower rate of six *per cent* for the year 2009-10. Adjustment due to reduction in dividend rate was carried out in

2010-11. Thus dividend payout in 2010-11 appears to be around 11 *per cent* less than the previous year. However, after taking into consideration the impact of adjustment of a reduction in dividend rate (from seven *per cent* to six *per cent* for the year 2009-10) carried out in 2010-11, the actual dividend due for the year 2010-11 amounted to ₹ 5,725.61 crore (after the adjustment of ₹ 784.36 crore paid in excess in the previous year). This was 20 percent higher than paid in the previous year indicating a higher capital investment.

**1.3.6 Net Surplus available for Appropriation**

Generation of net surplus after meeting all revenue liabilities including payment of dividend had fallen by a massive 99.98 *per cent* during 2009-10 compared to the previous year. IR could generate only a Net Surplus of only ₹75 lakh in 2009-10. However, in the current year the Net Surplus increased to ₹1,404.89 crore.

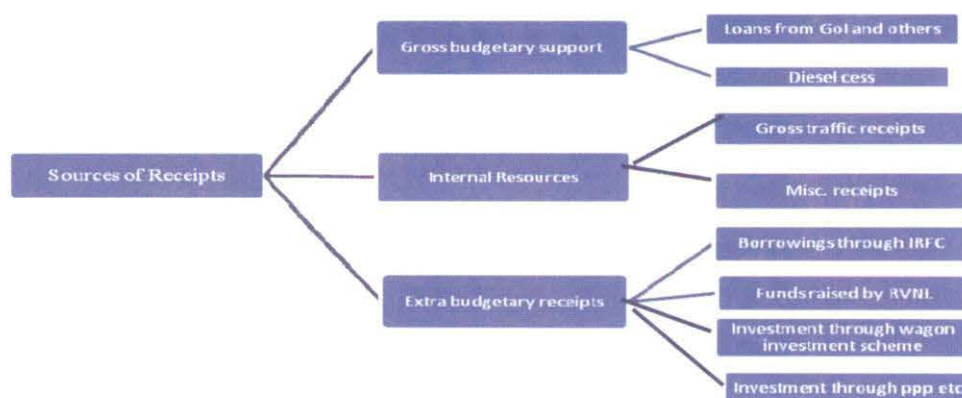
Despite the increase, Net Surplus was 56 percent less than the budget estimates. The main reason of increase in the net surplus is the adjustment of one percent dividend amounting to ₹ 784.36 relating to previous year. Thus, the actual surplus pertaining to current year is only ₹ 620.54 crore. During the year 2010-11, while GTR increased by 8.71 *per cent*, the total working expenditure rose by only 7.91 *per cent* leading to an increase in Net Surplus.

The entire Net Surplus to the tune of ₹ 1,404.89 crore was appropriated to Development Fund.

**1.4 Resources of IR**

The main sources of IR receipts were as follows:

**Figure 1.1: Sources of Receipts**



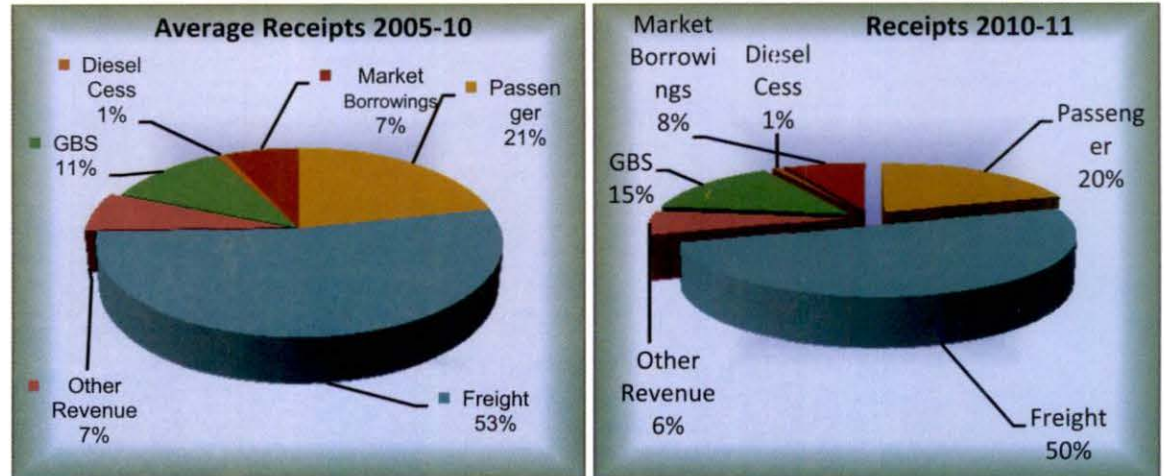
During a period 2006-10 the compound annual growth rate (CAGR) of revenue receipts was only around 10.53 *per cent*, while general budgetary support grew by 24.90 *per cent* and extra budgetary support (market



borrowings) by 19.04 per cent annually. Thus both GBS and Market Borrowings increased at a higher rate than internal resources of the IR.

The share of each of these sources of funds during the current year as well as over the average of past five years ended 31 March 2010 is given below:

**Figure 1.2: Relative Share of various Resources of IR**



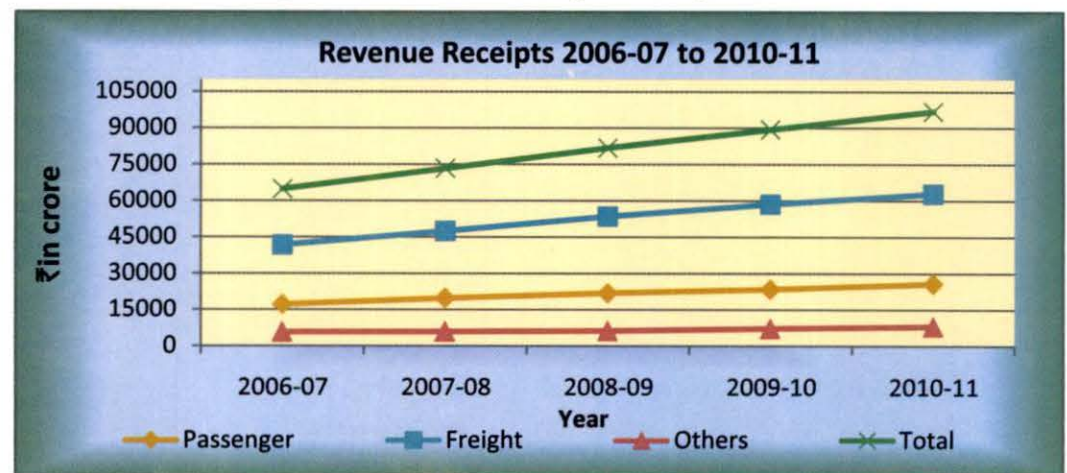
Note: Other Revenue Earnings include Other Coaching Earnings, Sundry Other Earnings and Miscellaneous Receipts; GBS- General Budgetary Support

Figure 1.2 indicates that on an average, the largest resource of IR was earnings on goods, followed by passenger earnings. While these two resources continued to be the largest sources of IR receipts for the current year also, their relative share reduced in the current year and had to be compensated for by a significant increase in the share of general budgetary support.

**1.4.1 Revenue Receipts**

The trend of total revenue receipts for the last five years is given in the graph below:

**Figure 1.3: Revenue Receipts during 2006-11**



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

Total Revenue Receipts increased at a CAGR of 10.53 per cent during the period 2006-10. However the increase in the Total Revenue Receipts in the



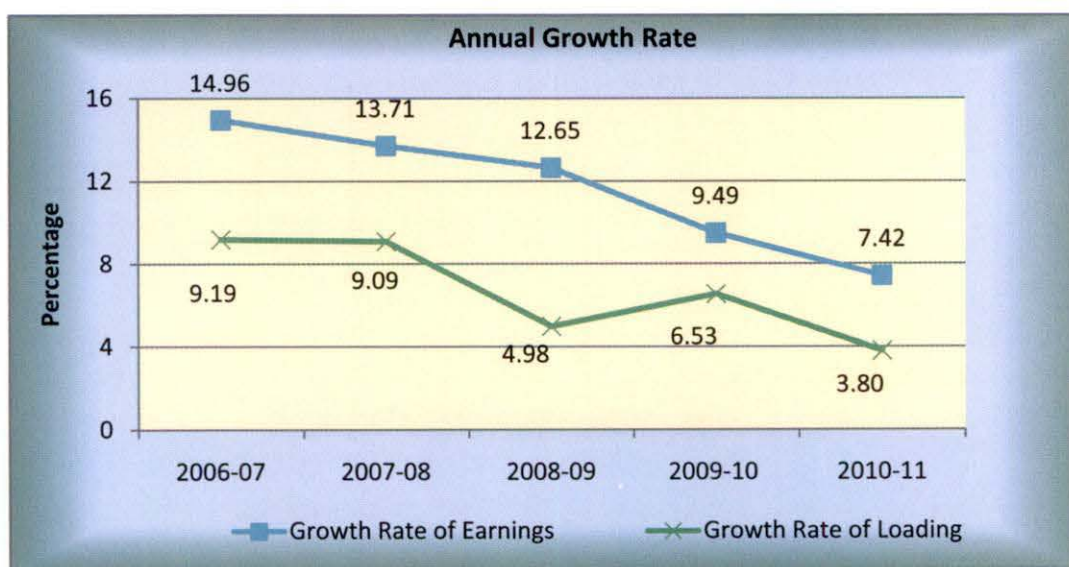
year 2010-11 was 8.35 percent which was below CAGR of 2006-10. The annual inflation of all commodities on an average during 2010-11 was around 9.56 per cent.<sup>9</sup> This meant that the real increase in revenue receipts (after discounting for inflation) was negative by 1.21 per cent.

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

#### 1.4.1.1 Freight Earnings

Trend of freight loading and freight earnings of IR for the last five years (2006-11) is shown in the graph below:

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



The annual growth rate of loading in the last five years ended 31 March 2011 showed a declining trend from 2006-07 (except for the year 2009-10). The annual incremental increase in loading (in absolute terms) ranged between 66.14 Million Tonne (2007-08) to 33.72 Million Tonne (2010-11) during the last five years. The increase in freight loading by 3.82 per cent in 2010-11 over the previous year was far below the CAGR of 6.85 per cent achieved during 2006-10.

In 2010-11, freight earnings increased by 7.42 per cent over the previous year, but it was again below the CAGR of 11.93 per cent achieved during 2006-10.

9 (Source -0/o The Economic Adviser, Ministry of commerce and Industry)

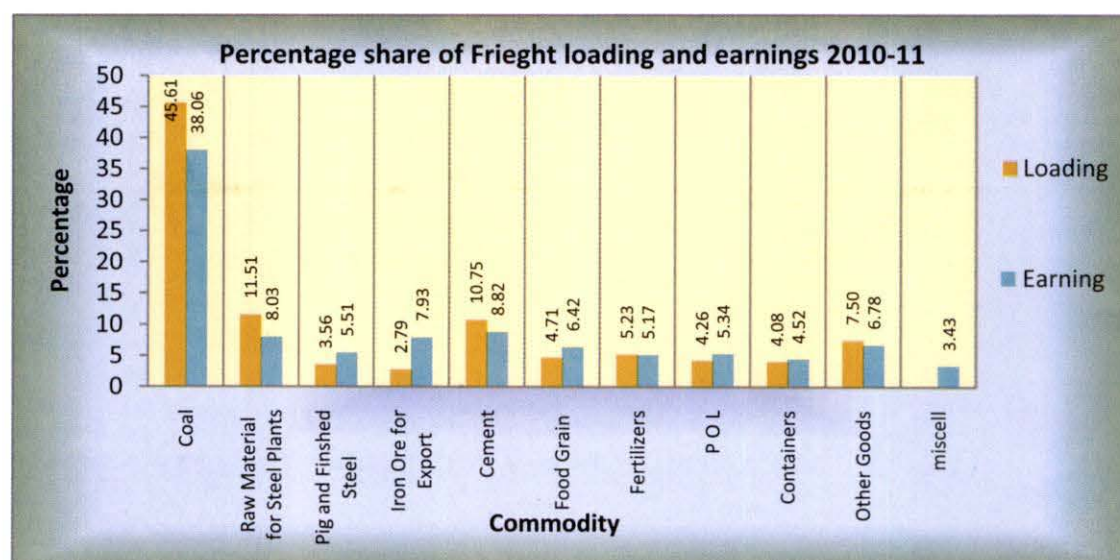
Table 1.2 Freight Services Statistics

Year	Loading (MT)	NTKM (in million)	Earning (₹ in crore)	Average lead (in kilometre)	Rate per tonne per km (in paise)
2006-07	727.75	480993	41,716.50	661	85.39
2007-08	793.89	521372	47,434.90	657	89.04
2008-09	833.39	551448	53,433.42	662	93.84
2009-10	887.79	600548	58,501.68	676	94.77
2010-11	921.73	625723	62,844.72	679	100.00

In 2010-11, it was seen that the annual growth rate of freight loading was 3.82 percent, whereas the NTKM increased at the rate of 4.12 per cent. Despite this, there was an annual increase of 5.52 per cent and 7.42 per cent in rate per tonne per kilometer and freight earning respectively. Average lead of 679 km in 2010-11 was higher than the previous year.

Share of major commodities in loading and earnings are given in the bar chart below:

Figure 1.5: Major Commodity wise share of loading and earnings (2010-11)



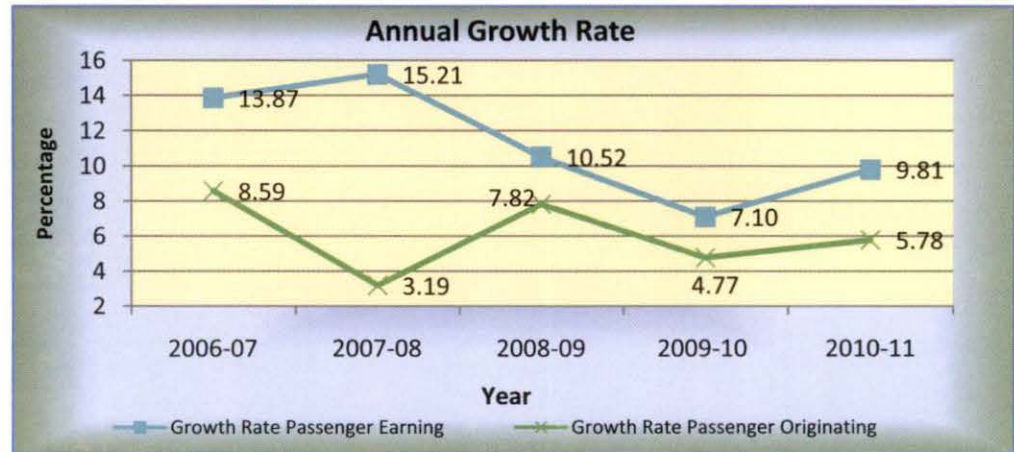
Coal, being a captive commodity, was the major component both in loading and earnings for IR. The above major commodities (excluding 'Other Goods' and miscellaneous earnings) contributed about 92 per cent of the total freight earnings of IR. Iron ore for export constituted three per cent of the total loading and earned eight per cent of the total freight earnings due to levy of high supplementary charges.



**1.4.1.2 Passenger Earnings**

The growth in earnings from Passenger traffic and in Passengers Originating in the last five year period (2006-11) is given below:

**Figure 1.6: Growth Rate of Passenger Originating and Passenger Earnings**



In the period of last five years the growth rate of earnings from passenger traffic and number of passengers travelled fluctuated erratically. The percentage increase in earnings from passenger traffic in 2010-11 over the previous year was 9.81 per cent which was below the CAGR of 10.89 per cent for the period 2006-10. The percentage increase in passengers originating in 2010-11 over the previous year was 5.78 per cent which was slightly above the CAGR of 5.24 per cent during 2006-10.

In 2010-11, passenger earnings fell short of budget estimates in the case of 10 out of the 16 zones. The shortfall in passenger earning targets was most pronounced in Southern Railway and Southeast Central Railway where the shortfall was 2.86 per cent and 2.54 per cent respectively.

Key performance indicators of passenger services are tabulated below:

**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)
2006-07	6333.73	695821 (12.84)	17,224.56 (13.87)	109.86	24.75 (0.90)
2007-08	6536.44	771070 (10.81)	19,844.18 (15.21)	117.96	25.74 (4.00)
2008-09	7046.91	839203 (8.84)	21,931.32 (10.52)	119.09	26.13 (1.52)
2009-10	7382.77	904761 (7.81)	23,488.17 (7.10)	122.55	25.96 (-0.65)
2010-11	7810.15	980131 (8.33)	25,792.63 (9.81)	125.50	26.32 (1.39)

Note: Figure in bracket represent percentage increase over previous year.



Both growth rate of passengers originating and passenger earnings improved in 2010-11 over the previous year. In 2010-11, it was seen that average earnings per passenger per kilometer also increased to 26.32 paise from 25.96 paise in 2009-10.

IR had been incurring a loss every year on passenger and other coaching services. During 2009-10<sup>10</sup>, this loss was ₹ 20,080 crore.

#### **1.4.1.3 Sundry Earnings and Other Coaching Earnings**

Sundries and other coaching earnings constituted around six *per cent* of the Gross Traffic Receipts in the current year (2010-11). It grew at around 15 *per cent* in the current year (2010-11) over the previous year. Analysis in audit revealed that earnings from rent, license fee and advertisements increased in the current year when compared to the previous year. There was considerable scope for increasing revenue from these components of sundry earnings provided bills for realization of rent of buildings, license fee were raised and realised in a timely manner with proper revision wherever due. A comment in this regard has been made on Non recovery of License Fee amounting to ₹ 823 crore from licensing/leasing of vacant land in paragraph 3.1 of Audit Report (No.32 of 2011-12) of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2011.

#### **1.5 Unrealized Earnings<sup>11</sup>**

Against the target for recovery of ₹200.00 crore during 2010-11 from unrealised earnings, IR could realise only ₹10.17 crore and the year closed at ₹1,357.84 crore as unrealised earnings. This consisted of ₹1,169.28 crore under Traffic Suspense and ₹188.56 crore under Demand Recoverable. Western Railway was the major contributor to the realisation of unrealised earnings with ₹41.20 crore. This was followed by South Railway with ₹ 4.83 crore. The major portion of outstanding under Traffic Suspense was on account of un-recovered freight and other charges from Power Houses and State Electricity Boards as ₹ 678.27 crore (constituting 58 *per cent* of the total Traffic Suspense) was yet to be recovered. Major defaulters are tabulated on next page:

<sup>10</sup> Profitability/unit cost of coaching services for 2010-11 was still not compiled (January 2012).

<sup>11</sup> Unrealized earnings on account of movement of traffic was classified as 'Traffic Suspense' whereas on account of rent/lease of building/land, interest and maintenance charges of sidings etc as 'Demand Recoverable'.

Table 1.4- Outstanding dues against State Electricity Board

(₹ in crore)

Sl. No	State Electricity Board/ Power House	Outstanding dues as of 31 March 2010	Outstanding dues as of 31 March 2011	Increase / decrease (-) during the year
1.	Punjab State Electricity Board (PSEB)	444.05	448.07	4.02
2.	Delhi Vidyut Board (DVB) @	177.15	176.36	(-)0.79
3.	Rajasthan State Electricity Board (RSEB) @	37.10	38.58	1.48

@ Now unbundled into Companies as a result of Power Sector Reforms

## 1.6 Cross-Subsidization

### 1.6.1 Subsidy towards Passenger and other Coaching Services

IR was unable to meet its operational cost of passenger services and other coaching services. Revenue from passenger services has increased by 58 per cent<sup>12</sup> during the last five years ended 31 March 2010, but expenditure on this head increased by 97 per cent during the same period.

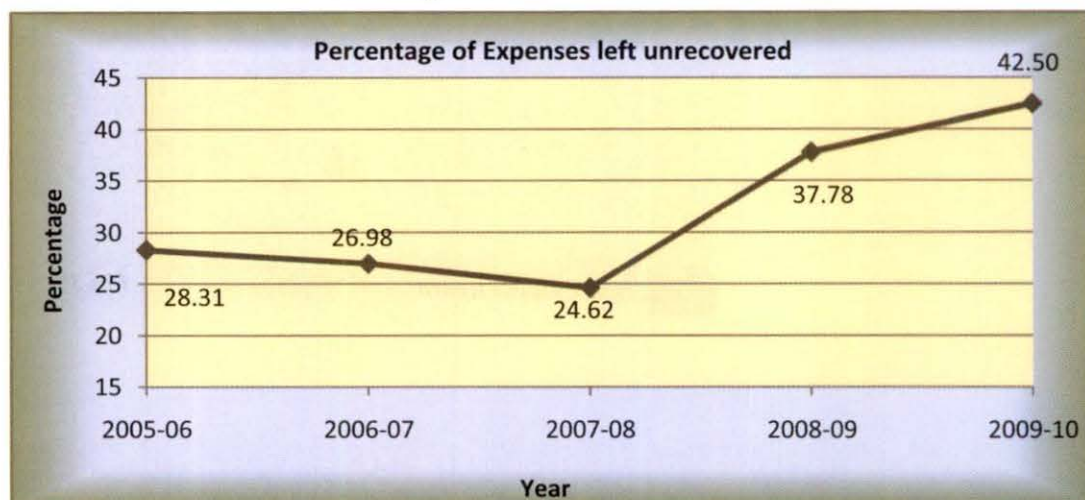
The Summary of End Results- Freight Services Unit Costs and Coaching Services Profitability/Unit Costs for the year 2009-10 published by the IR indicate that there was cross subsidization from freight earnings to passenger and other coaching earnings. Loss incurred by passenger and other coaching services increased from ₹ 6,792.75 crore in 2005-06 to ₹ 20,080.47 crore in 2009-10. The gap in percentage of expenditure on passengers and other coaching services left unrecovered during the period of five years ended 31 March 2010, is shown in Figure 1.7 given on next page:

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12 Excluding Narrow Gauge and Metro Railway/ Kolkata

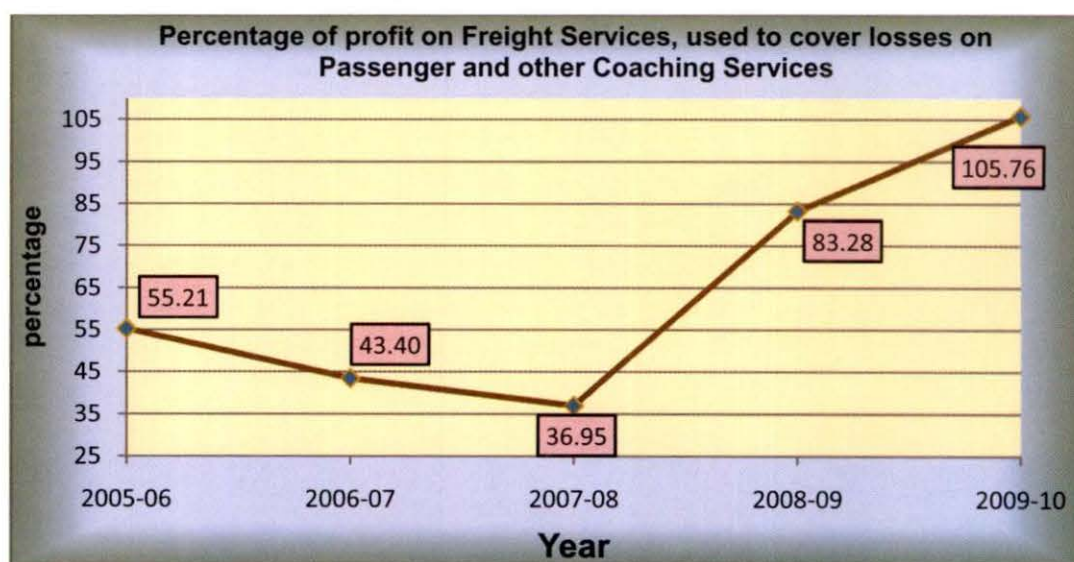


**Figure 1.7: Percentage of expenditure on Passenger and Other Coaching Services left uncovered**



The steep increase in cross subsidy during 2009-10 was a result of increase in cost of operations due to implementation of the 6<sup>th</sup> CPC's recommendations. Figure 1.8 below depicts 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 entire profit (amounting to ₹ 18,986.89 crore) from freight traffic were utilized to compensate the loss (₹ 20,080.47 crore) on operation of passenger and other coaching services of IR.

### **1.6.2 Operational losses of various Classes of Passenger Services**

Table on next page gives the operational losses of various classes of passenger services during 2005-06 to 2009-10:



Table 1.5 Operational losses of various Classes of Passenger Services

		(₹ in crore)				
Class of Passenger	2005-06	2006-07	2007-08	2008-09	2009-10	
AC-Ist class	-32.55	-19.76	-14.77	-59.37	-53.14	
Ist class	14.14	-13.84	-6.30	-69.67	-32.67	
AC sleeper	79.12	72.92	123.09	-176.91	-372.32	
AC 3 Tier	94.95	423.99	547.60	540.57	212.14	
AC Chair car	89.32	-4.94	114.68	5.45	-2.11	
Sleeper Class	-1,926.59	-1,888.27	-2,384.08	-3,175.24	-5,333.90	
Second class	-762.98	-1,215.61	-993.22	-2,933.09	-3,401.25	
Ordinary (All Class)	-2,770.96	-2,912.58	-3,541.28	-6,381.77	-7,763.36	
EMU suburban services	-807.11	-891.13	-922.39	-1,651.19	-2,214.06	

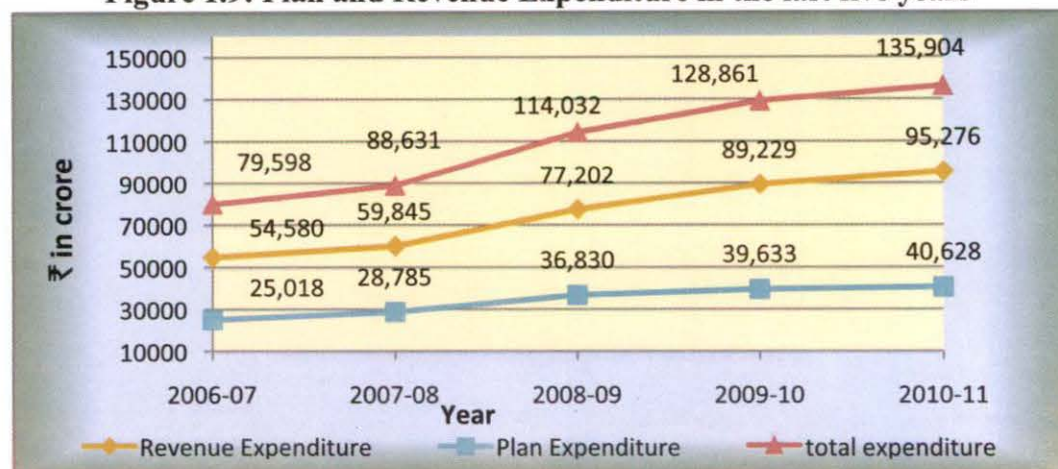
As can be seen from the above table, only AC-3-tier covered their operational cost in 2009-10. However, there is a declining trend in the profitability of this service from 2007-08. The profit on this service has declined by 61 per cent in 2009-10 when compared to 2008-09.

The subsidy provided to both Ordinary Class and suburban services increased continuously in the last five years with subsidy on Ordinary Class being the maximum. The percentage of loss to the earning of the various classes of passenger services ranged from 17 per cent (AC-Ist class) to 181 per cent (EMU Suburban Services).

### 1.7 Application of Resources

The two main components of expenditure in IR are 'Revenue Expenditure' and 'Plan Expenditure'. Revenue expenditure includes ordinary working expenditure, miscellaneous expenditure and dividend Payout. The total expenditure of IR and its composition under revenue and plan for the last five years is given below:

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





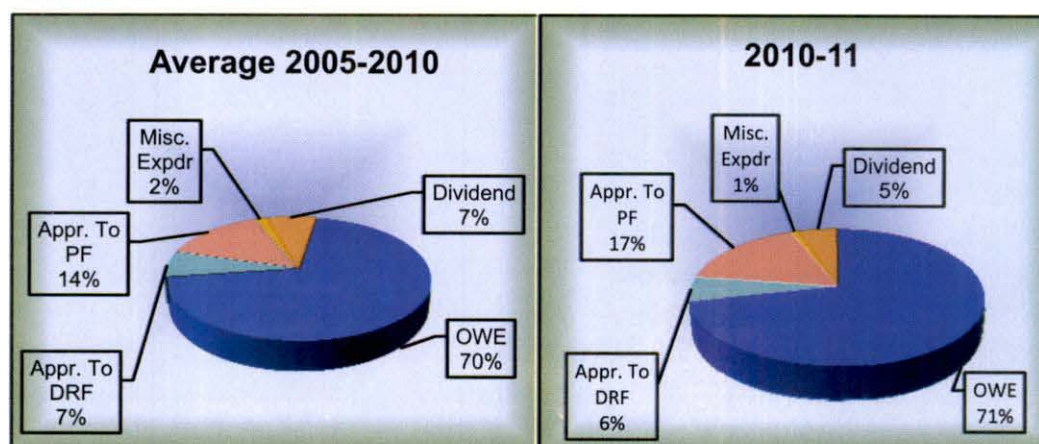
Total expenditure increased at the rate of 5.47 *per cent* in 2010-11 over the previous year. This was far below the CAGR of 12.18 *per cent* for the period 2006-10. Revenue expenditure grew at the rate of 6.78 *per cent* as compared to CAGR of 17.80 *per cent* over the period 2006-10. This was mainly because impact of implementation of 6<sup>th</sup> CPC had already been taken into account. Plan expenditure grew at the rate of 2.51 *per cent* in 2010-11 as compared to CAGR of 16.57 *per cent* over the period 2006-10. This indicates a substantial reduction in the availability of resources for capital creation.

In the period of last five years, the share of revenue expenditure and plan expenditure to total expenditure remained almost static ranging from 68 *per cent* (2007-08 and 2008-09) to 70 *per cent* in 2010-11 and from 30 *per cent* (2010-11) to 32 *per cent* (2007-08 and 2008-09) respectively. A detailed analysis of plan expenditure is discussed in paragraph 1.10.

### 1.7.1 Revenue Expenditure

Composition of revenue expenditure during the current year and an average of the past five years ended on 31 March 2010 are given below:

**Figure 1.10: Revenue Expenditure in last five years**



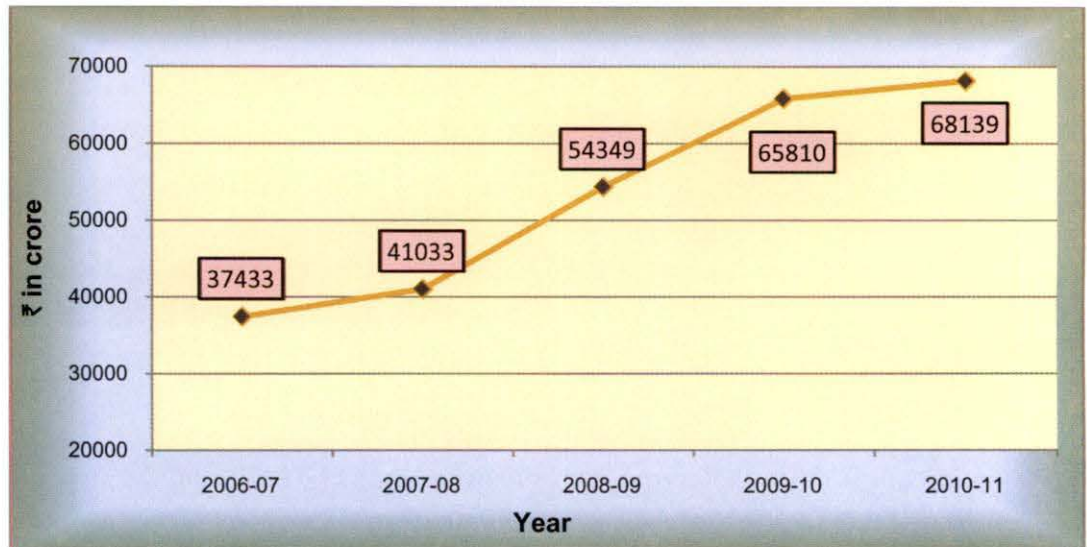
The main components of expenditure was OWE which constituted about 70 *per cent* of the total revenue expenditure on an average during 2005-10. This has increased to 71 *per cent* in 2010-11.

Appropriation to DRF was reduced to six *per cent* in 2010-11 as compared to seven *per cent* on an average during 2005-10. Due to implementation of the 6<sup>th</sup> CPC recommendations, appropriation to Pension Fund increased to 17 *per cent* in 2010-11 as compared to 14 *per cent* on an average during 2005-10 to meet the increased pension liabilities.

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 trend in OWE over the last five years is depicted below:

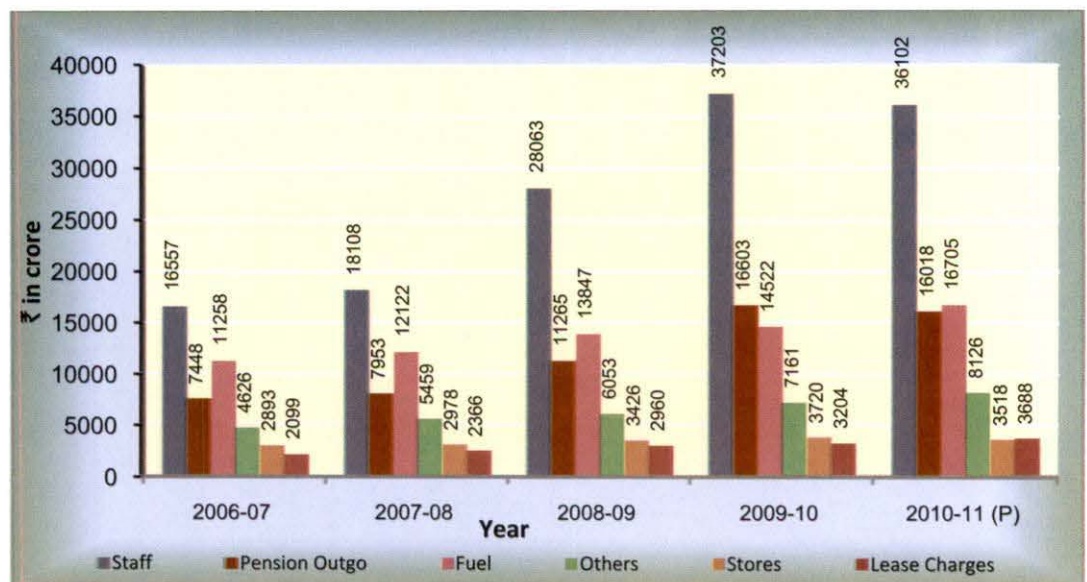
Figure: 1.11 - Growth of Ordinary Working Expenses (2006-07 to 2010-11)



The step increase in OWE during 2008-11 was on account of implementation of 6<sup>th</sup> CPC's recommendations. OWE increased at a rate of 3.54 per cent during 2010-11 over the previous year against a CAGR of 20.69 per cent during 2006-10.

The break-up of working expenditure on IR under staff, fuel, lease charges, stores, other and pension outgo for the last five years is shown in the figure below:

Figure: 1.12 - Component wise expenditure





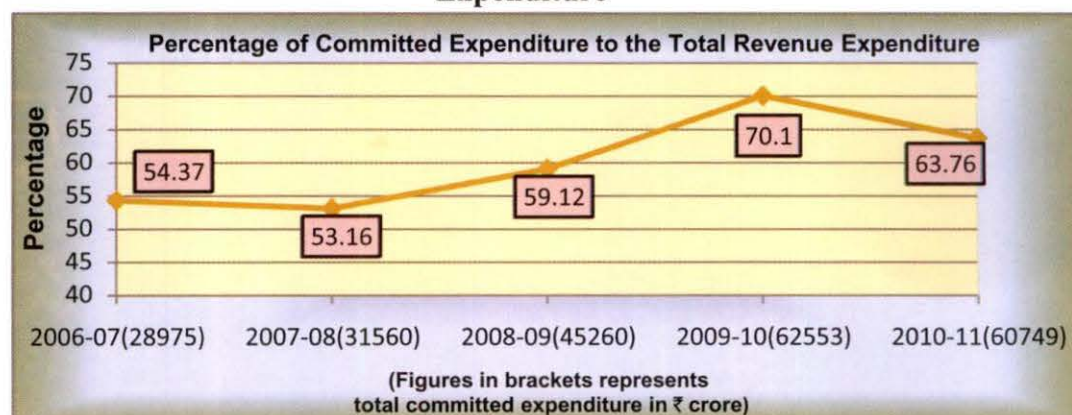
Staff cost (including pension outgo) constituted 62 per cent of the working expenses of the IR during the current year.

### 1.7.2 Committed Expenditure

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

Figure 1.13 shows the percentage of committed expenditure to the total revenue expenditure of IR during the last five years 2006-07 to 2010-2011:

**Figure 1.13: Committed Expenditure as a percentage of total Revenue Expenditure**



Committed expenditure to the total expenditure declined marginally in 2007-08 as the growth rate of total revenue expenditure was more than the growth rate of committed expenditure. However it increased in 2008-10 due to payment of arrears of salary w.e.f. 01.01.2006 (as a result of sixth pay commission recommendation). In 2010-11, committed expenditure decreased to 63.76 per cent but it was still higher as compared to previous years. With the increase in percentage of committed expenditure, in proportion to the total revenue expenditure, IR was left with only 36 per cent of the total revenue expenditure to run their operations. Of this, fuel alone comprised 48 per cent. This impacted IR's contribution to DRF.

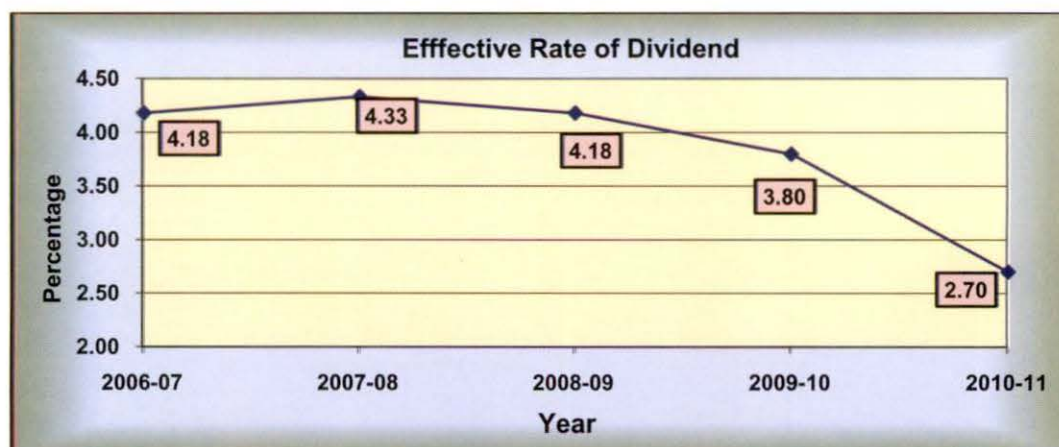
### 1.7.3 Dividend and Subsidy

Under the 'Separation Convention' the IR is required to pay dividend to the general revenues on the capital advanced by the GoI at a rate determined periodically by RCC. Further, in terms of the recommendations of the RCC, IR is given concessions towards payment of dividend in respect of capital invested in the larger national interest<sup>13</sup>. Dividend paid on such capital is

<sup>13</sup> Strategic Lines, 28 New Lines taken up on other than financial consideration, non-strategic capital of Northeast Frontier Railway, Un-remunerative branch lines, Ore lines, 50 per cent of work-in-progress

received back as subsidy to IR. This subsidy had decreased from ₹ 2,155.87 crore (2009-10) to ₹ 2,037.64 crore (2010-11). Taking into account the subsidy received, the net effective rate of dividend decreased to three *per cent* as compared to four *per cent* in the previous year. However, this was due to carrying out adjustment of one *per cent* of dividend amounting to ₹ 784.36 crore in current year, which was paid in excess during previous year.

Figure: 1.14 Effective Rate of Dividend (2006-11)



#### 1.7.4 Un-discharged Liability

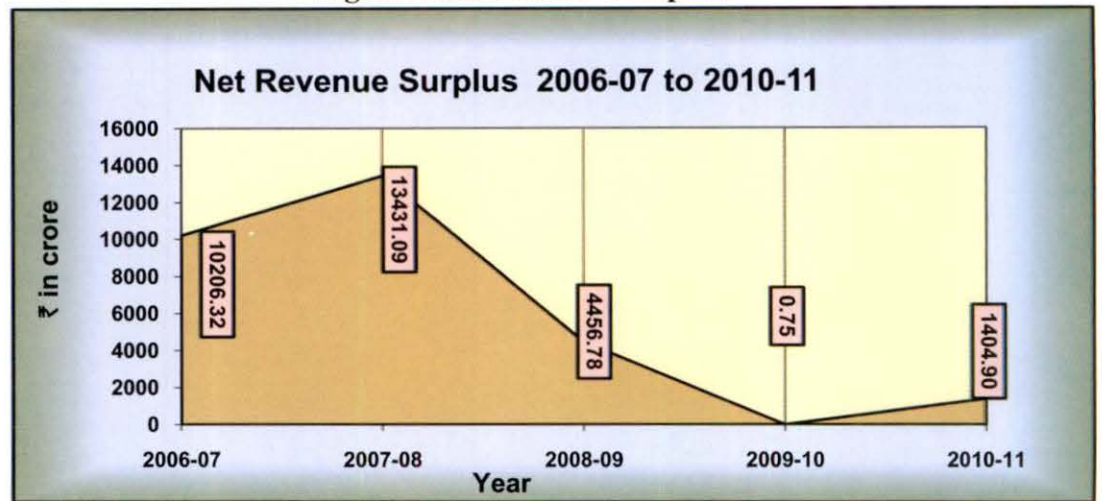
The RCC allowed a moratorium on payment of dividend on investments in New Lines during the period of construction and the first five years after opening of the line for traffic. Cumulative dividend was payable when the line showed surplus after meeting current liability. The account of dividend liability is closed after 20 years, extinguishing all such un-liquidated liability. The liability on this account which was ₹7,511.79 crore at the close of 2009-10, had increased to ₹ 8,322.65 crore as of March 2011.

#### 1.8 Revenue Surplus

Trend of net revenue surplus after meeting all revenue expenditure including payment of dividend, during the last five years ended on 31 March 2011 is shown in the graph on next page:



Figure: 1.15 Revenue Surplus



The downward trend in net revenue surplus from 2007-08 to 2009-10 was due to declining trend of growth rate of revenue receipts (from 13 *per cent* to nine *per cent*) and higher growth rate of revenue expenditure (from 10 *per cent* to 16 *per cent*) as discussed in the preceding paragraphs. Thereafter in 2010-11, there is slight increase in generation of net revenue surplus due to decline in the growth rate of revenue expenditure (from 16 *per cent* to seven *per cent*).

IR generated ₹13,431 crore as net surplus in 2007-08. Thereafter generation of net surplus sharply declined to ₹75 lakh in 2009-10 and again rose to ₹1,405 crore in 2010-11 which was partly due to carrying out the adjustment of dividend amounting to ₹784.36 pertaining to last year.

## 1.9 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:

### 1.9.1 Operating Ratio

Operating ratio represents the percentage of working expenses to traffic earnings. The operating ratio, which was 95.28 *per cent* in 2009-10, improved negligibly to 94.59 *per cent* in current year for IR as a whole. This was primarily because of decrease in growth rate of total working expenses from 15 *per cent* in 2009-10 to eight *per cent* in 2010-11.

The operating ratio of zonal railways and Metro Railway, Kolkata during the last three years ended on 31 March 2011 is shown in the table on next page:

Table 1.6 Operating Ratio of Zonal Railways

S.No	Zonal Railway	2008-09	2009-10	2010-11
1	Central	97.64	106.47	107.31
2	Eastern	173.45	186.25	178.52
3	East Central	99.48	107.94	109.06
4	East Coast	49.3	48.25	42.82
5	Northern	115.26	112.74	112.20
6	North Central	60.59	61.55	63.12
7	North Eastern	197.32	216.19	201.78
8	Northeast Frontier	148.69	161.28	167.25
9	North Western	120.23	110.29	106.41
10	Southern	126.06	137.47	135.55
11	South Central	77.23	80.66	85.76
12	South Eastern	62.24	69.18	66.98
13	South East Central	53.23	60.43	58.01
14	South Western	77.11	88.43	98.69
15	Western	93.25	97.88	97.96
16	West Central	73.95	74.07	74.93
17	Metro Railway Kolkata	252.96	248.00	226.35
Overall IR		90.46	95.28	94.59

There was noticeable improvement in the Operating Ratio of Eastern, East Coast, North Eastern, North Western and Metro Railway Kolkata whereas the same has deteriorated noticeably in Northeast Frontier, South Central and South Western during the current year compared to the previous year. Operating Ratio of Central, Eastern, East Central, Northern, North Eastern, Northeast Frontier, North Western, Southern Railways and Metro Railway, Kolkata was more than 100 *per cent* during 2010-11, implying that their working expenditure was more than their traffic earnings.

### 1.9.2 Capital-Output Ratio

Capital Output Ratio indicates the amount of capital employed to produce one unit of output (Total Traffic in NTKMs could be seen as the output in the case of IR). The table on next page shows the Capital-output ratio for total traffic (in NTKMs), carried by the IR during the last five years ended on 31 March 2011:



**Table 1.7 Capital Output Ratio of IR (2006-11)**

As on	Total Capital including investment from Capital Fund (₹ in Million)	Goods Traffic (NTKMS) (in million)	Passenger Traffic		Total Traffic (in Million NTKMs)	Capital at charge (in Paise) per NTKM
			Passenger Kilometres (in millions)	Million NTKMs		
31-Mar-07	760,307	483,422	694,764	49,328	532,750	143
31-Mar-08	885,211	523,196	769,956	54,667	577,863	153
31-Mar-09	1,043,012	552,002	838,032	59,500	611,502	171
31-Mar-10	1,230,007	601,290	903,463	64,146	665,436	185
31-Mar-11	1,432,205	626,473	978,508	69,474	695,947	206

Capital Output ratio had increased from 143 paise (2006-07) to 206 paise (2010-11) indicating deteriorating physical performance of the IR compared to capital employed. Higher cost overruns due to non-completion of projects in time and investment in financially unviable projects were some of the reasons contributing to higher Capital Output ratio.

### **1.9.3 Staff Productivity**

Staff productivity on the IR is measured in terms of volume of traffic handled (in terms of NTKM in Million) per thousand employees. It had increased over the years for IR as a whole by over 38 per cent during the period 2006-07 (407) to 2010-11 (561).

The improvement in staff productivity over the last five years was a result of two distinct factors:

- Increase in freight carried in terms of tonnage and passenger originating in relation to total distances carried/travelled.
- Decline in workforce from 13.09 lakh (2006-07) to 12.40 lakh (2010-11).

Zone wise analysis of staff productivity revealed that during 2010-11, highest staff productivity of 1461 Million NTKM per thousand employees was achieved by East Coast Railway whereas Staff productivity of 190.57 Million NTKM per thousand employees of Eastern Railway was the lowest during the same period.

### **1.10 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 plan 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. IR plan expenditure was financed from the general exchequer extended as general budgetary support, internal resources<sup>14</sup> and extra budgetary support i.e. market borrowing through IRFC for rolling stock and new network links by RVNL.

The table below gives the sources of funds for the plan expenditure during 10<sup>th</sup> FYP period and first four years of 11<sup>th</sup> FYP period:

**Table 1.8 Source-wise Plan Expenditure**

(₹ in crore)

Source of Plan Expenditure	10 <sup>th</sup> FYP		11 <sup>th</sup> FYP			
	(2002-07)	2007-08	2008-09	2009-10	2010-11	
	Actual	Actual	Actual	Actual	Budget Estimates	Actual
General Budgetary Support <sup>15</sup> (%age to the total)	37,516.06 (44.88)	8,667.90 (29.82)	10,110.43 (27.45)	17,716.09 (44.70)	17,575	19,485.06 (47.77)
Internal Resources (%age to the total)	29,567.99 (35.37)	14,948.00 (51.43)	18,941.23 (51.43)	12,195.68 (30.77)	13,700	11,527.39 (28.26)
Extra Budgetary Support (%age to the total)	16,502.15 (19.75)	5,169.43 (18.75)	7,777.84 (21.12)	9,720.79 (24.53)	10,151	9,780.29 (23.97)

Note: figures in brackets represent percentage to the total

Due to generation of more internal resources, dependency of plan expenditure on general budget support decreased substantially in the first two years of the 11<sup>th</sup> FYP period. In the third and fourth year of the 11<sup>th</sup> FYP period, due to non-availability of sufficient internal resources, dependency on general budget again increased with corresponding decrease in plan expenditure from internal resources.

Plan expenditure is broadly categorized under various plan heads. Table 1.9 gives the share of expenditure grouped under various categories of Plan Heads during the 10<sup>th</sup> FYP Period and first three years of the 11<sup>th</sup> FYP period:

**Table 1.9 Category-wise Plan Expenditure**

(₹ in crore)

Plan Heads	10 <sup>th</sup> FYP (2002-07)	2007-08	2008-09	2009-10	2010-11
New Lines, Gauge Conversion, Doubling, Traffic Facilities, Track Renewal, Bridge Work, S & T	42,391.07 (50.72)	13,056.99 (45.36)	15,094.45 (40.98)	15,386.09 (38.82)	15,899.34 (38.98)
Rolling Stock and Payment of Capital Component of Lease charges	26,556.21 (31.77)	9,611.16 (33.39)	13,043.34 (35.42)	15,141.94 (38.21)	17,210.25 (42.19)

<sup>14</sup> Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund

<sup>15</sup> Includes expenditure from RSF



Plan Heads	10 <sup>th</sup> FYP (2002-07)	2007-08	2008-09	2009-10	2010-11
Workshop and Production Units and Plant and Machinery	1,962.67 (2.35)	686.82 (2.39)	1,343.45 (3.65)	1,682.5 (4.25)	1,435.95 (3.52)
Investments in Government Undertaking	2,886.59 (3.45)	1,581.74 (5.49)	2,095 (5.69)	2,041.99 (5.15)	1,789.58 (4.39)
Others	9,789.65 (11.71)	3,848.66 (13.37)	5,253.27 (14.26)	5,380.33 (13.57)	4,457.93 (10.93)
<b>Total</b>	<b>83,586.19</b>	<b>28,785.37</b>	<b>36,829.51</b>	<b>39,632.85</b>	<b>40,793.05</b>

Note: 1 Figures in brackets represent percentage to the total

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

Note : 3 Since IRFC, WIS and RVNL are also contributing to Plan Expenditure (i.e. Extra Budgetary Support), these were also including Under Rolling Stock- (₹6,052 crore for 10<sup>th</sup> -FYP and ₹21,765 crore for first three year of 11<sup>th</sup> FYP and Investments- ₹450 crore in 10<sup>th</sup> -FYP and ₹1,183 crore for first three years of 11<sup>th</sup> -FYP)

The above table reveals that the share of plan expenditure on track related works (construction of New Lines, Doubling, Gauge Conversion, Yard Remodelling and Traffic Facilities, Bridge Works and Signal and Telecommunication Works) declined from a high of 51 per cent in the 10<sup>th</sup> five year plan period to an average of 41 per cent in 11<sup>th</sup> five year plan and there was a commensurate increase in share of Rolling stock during the same period. However, there was a decline in the share of plan expenditure on Workshop and Production Units and Plant and Machinery.

### 1.11 Railway Funds

Table 1.10 Status of Railway Funds

Fund	Description
Depreciation Reserve Fund	The appropriation to this fund is met out of the revenues earned by IR. This is meant for replacement and renewal of over-aged assets. This fund receives interest at the rate of dividend payable to general revenues. The opening balance as on April 1, 2010 in this fund account was ₹ 4.93 crore which turned into negative balance of ₹ (11.21) crore after carrying out the interest adjustment of ₹ 16.14 crore due to revision of rate of interest from seven per cent to six percent for 2009-10. (During 2009-10, the tentative rate of interest was seven per cent per annum, which was later revised to six per cent for the year 2009-10 and 2010-11 by RCC.) However, The fund closed at ₹ 18.89 crore at the end of 2010-11 by expending less amount (₹ 5,585.12 crore) on replacement and renewal of assets than appropriated to the fund (₹ 5,615.00 crore). The Appropriation to DRF was made less than Budgeted provision by 27 per cent.



<i>Fund</i>	<i>Description</i>
<i>Pension Fund</i>	<p>The fund account as on April 1, 2010 stood at ₹ 1.24 crore. After carrying out the adjustment of one percent of interest amounting to ₹ 7.37 crore payable back to Govt. of India, the fund balance eroded to negative balance of ₹ (6.13) crore.</p> <p>The 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. Appropriation to the fund during 2010-11 was slightly more than the withdrawals. However, due to negative balances appearing in the fund account as discussed above, Ministry had to pay interest of ₹ 2.34 lakh instead of receiving the same from Government. The available balance under the fund at the close of the year was ₹ 5.33 crore on 31 March 2011.</p>
<i>Development Fund</i>	<p>Due to continuous decrease in revenue surplus after 2007-08, there was a substantial decline in net balances under the fund at the end of each year. The fund account as on April 1, 2010 stood at ₹ 5.54 crore. In 2010-11, the entire amount of Revenue surplus to the tune of ₹ 1,404.89 crore was appropriated to it. The fund closed at a negative figure of ₹ 1,213.34 crore due to the following reasons:-</p> <ol style="list-style-type: none"> <li>1. The capital expenditure incurred out of this fund amounting to ₹ 2,576.59 crore was much more than the contribution to the Fund amounting to ₹ 1,404.89 crore;</li> <li>2. Payment of the interest amounting to ₹ 47.19 crore to Government of India due to negative balance in fund account.</li> </ol>
<i>Capital Fund</i>	<p>With the decrease in generation of revenue surplus since 2007-08, appropriation to this fund decreased from ₹ 11,072.09 crore (2007-08) to ₹ 3,065.78 crore in 2008-09. IR could not appropriate any amount to this fund in 2009-10 and 2010-11, whereas an amount of ₹ 3,282.74 crore and ₹ 3,329.85 crore was expended from this fund during 2009-10 and 2010-11 respectively. This resulted into the negative balances of ₹ (885.71) crore as on March 31, 2011 in fund account.</p>
<i>Railway Safety Fund</i>	<p>The opening balance in this fund account as on April 1, 2010 was ₹ 2,582.20 crore. An amount of ₹ 1,100.27 crore was utilized in 2010-11 as against an amount of ₹ 935.42 credited to it. The fund account closed at ₹ 2,417.34 crore at the end of 2010-11.</p>

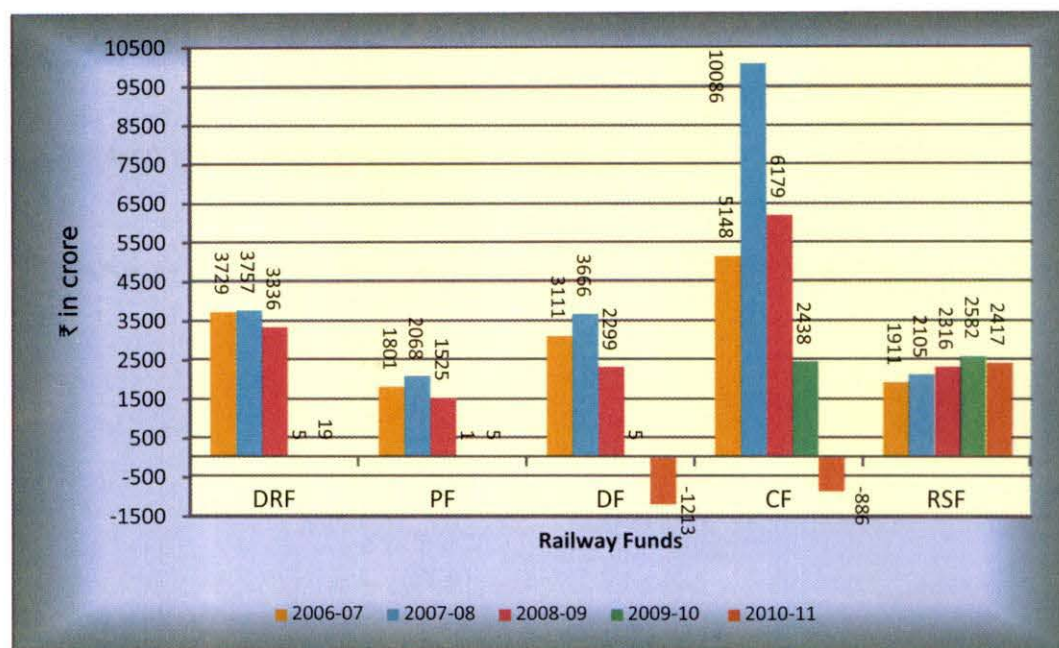
The five funds<sup>16</sup> shown above were either financed through revenues or surplus except Railway Safety Fund, which received a share of the Diesel Cess. Balance available in the funds at the beginning of the year 2010-11,

<sup>16</sup> Till 2007-08, IR also operated Special Railway Safety Fund which was created in 2001-02 to wipe out the arrears in renewal/replacement. The fund was closed at the end of 2007-08 and balance remained in the fund was transferred to Depreciation Reserve Fund.



declined by 93 per cent from ₹ 5,032 crore to ₹ 328 crore at the end of the year as the withdrawals in all the funds were more than the funds appropriated to them.

**Figure 1.16- Fund Balances at the close of the years (2006-11)**



The Development Fund and Capital Fund, which are funded out of the railway 'Excess' remaining after payment of dividend, closed with negative balances of ₹ 1,213 crore and ₹ 886 crore, respectively. In order to bridge the gap in fund balances under these two funds Ministry of Finance was requested to extend loan of ₹ 2,101 crore. However the Ministry of Finance did not accede to this request of Railway Ministry and asked them to meet this liability by raising their resources suitably in the year 2011-12 on the plea that less appropriation to the funds than Budgeted had made an adverse impact on Fiscal Deficit of the Government in the year 2010-11.

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. During the last five years ending 31 March, 2011 the expenditure on renewal/replacement of assets to the appropriation made to the fund varied from 99 per cent (2010-11) to 251 per cent in 2009-10. Since renewal/replacement of assets should be a high priority item, it is imperative that contribution to DRF should be made in a well-founded and transparent manner.

The annual contribution to DRF is distributed zone-wise in proportion to the Block Account (value of assets held) of each zonal railway. This apportionment is charged to the working expenses of the zone. It was seen that at the zonal level there was no relation between the amount appropriated to



DRF and amount expended on replacement and renewal of the assets. There was negative balance at the end of 2010-11 in respect of Central, Eastern, North Central, North Eastern, North Western, South Eastern, Southeast Central, South Western, Western, West Central Railways, Integral Coach Factory (ICF), Central Organization for Railway Electrification (CORE) and Metro Railway, Kolkata and MTP/Chennai.

### **1.12 Conclusions and Recommendations**

With the slow-down of the Indian economy and impact of implementation of the 6<sup>th</sup> CPC recommendation the finances of IR were severely impacted during 2008-10, IR thus could not achieve the projected performance as outlined in the budget for both the years. However in 2010-11, GTR was achieved as per projection, but Net Revenue was far below the Budget projections by 35.12 *per cent*. This was mainly due to increased Ordinary Working Expenditure by 5 *per cent* and increased appropriation to pension fund by 9.10 *per cent* than envisaged in the Budget. The achieved Net Revenue was only possible by reducing appropriation to DRF by 27 *per cent* over budgeted projections. This has implication on safety of Railway operations.

IR has not been able to meet their operational cost of passenger and other coaching services. There was heavy cross-subsidization from freight services to passenger services. Percentage of freight earnings used to subsidize the losses on passenger and other coaching services ranged between 15.80 *per cent* and 34.32 *per cent* during 2007-08 to 2009-2010. In fact Railway Convention Committee, in its first report on 'Rate of Dividend for 2009-10 and 2010-11 and other Ancillary matters' desired that the Railways should explore the ways of raising their revenue and avenues for resource mobilization while curbing wasteful expenditure and enforcing financial discipline. From figure 1.8 on cross-subsidization, it is evident that IR is incurring losses on its total earning from Core Activities i.e. Coaching Services and Freight Services and pulling on the profit earned from Sundry earnings and Miscellaneous Receipts.

The surplus of ₹ 1,404.89 crore during the current financial year (2010-11) reflected an improvement in IR finances over the previous year. However, the accumulated fund balances were substantially depleted indicating a continued poor financial performance by IR in the current year and risk for future sustainability. Capital fund and Development fund are funded from the Revenue surplus of IR. However, due to decline in the Revenue surplus from the year 2007-08 onwards, both the Funds closed with negative balances of ₹ 885.71 crore and ₹ 1,213.34 crore respectively. Similarly Depreciation Reserve Fund and Pension Fund, which are funded from the revenue earned by IR also closed with meager balances of ₹ 18.89 crore and ₹ 5.33 crore



respectively. This situation would ultimately adversely affect the long term sustainability of IR operations. IR will be severely handicapped to finance any future capital/developmental expenditure until these funds are recouped over and above the negative amount of ₹ 2,101 crore (approx.) out of Revenue Surplus. Ministry of Finance has also refused to extend a temporary loan to bridge the gap of negative balances of ₹ 2,101 crore appearing in Capital and Development fund on the plea that this liability should be met by IR by raising their resources suitably in the current year.

The financial and operational efficiency indicators except staff productivity of IR were not encouraging during the year 2010-11. The overall operating ratio improved negligibly from 95.28 *per cent* in 2009-10 to 94.59 *per cent* in 2010-11. Capital-output ratio had also increased significantly in the last five years (2006-11), indicating deterioration in the physical performance of the IR compared to capital employed. Current Infrastructure of IR was overstretched and capacity augmentation of network and rolling stock was not commensurate with the projected growth. There does not seem to have been any policy/strategy formulated to increase Net Revenue despite being pointed out in the last years Audit Report (No. 33 of 2010-11) of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2010.

#### **Recommendations**

- *The IR is facing a severe financial crunch and their accumulated funds have eroded by 93 per cent. The way forward for IR is to improve its finances and rationalize both freight and passenger tariffs. It is essential that IR increases its market share in bulk commodities where it has an inherent competitive advantage.*
- *IR needs to review all cases of licensing/ renting of its assets for timely revision/ raising of bills and realization of dues including arrears.*
- *The dependency on Gross Budgetary support has been increasing due to shrinkage of Internal Resources. IR needs to explore alternate sources to finance its capital expenditure.*
- *It is important for the IR to review all the capital works in progress and take expeditious decision with regard to closure of projects where there is road connectivity (especially un-remunerative lines), where the progress over the years is absolutely negligible and the need for going ahead with the project is no longer as valid. There is a need to focus more on viable projects.*

## **Chapter 2 Appropriation Accounts**

This Chapter outlines 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. 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".

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 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.

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.

### **2.1 Summary of Appropriation Accounts**

IR authorized its expenditure through operation of 16 Grants comprised of 15 Revenue Grants<sup>17</sup> (Grants number 1 to 15) and one Capital Grant<sup>18</sup> (Grant No. 16). Revenue grants were financed through internal resources generated by IR through its earnings, the Capital grant was funded from general budgetary support, internal resources and share of diesel cess from Central Road Fund.

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<sup>17</sup> Grants detailing working expenses and other revenue expenditure as voted by Parliament.

<sup>18</sup> Grant detailing expenditure on Assets Acquisition, Construction and Replacement voted by Parliament



Appropriation Accounts (Railways) for the sums expended during the year ended 31 March 2011, 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 below:

**Table 2.1- Summary of Appropriation Accounts 2010-11**

(₹ in crore)

	Original Grant/ Appropriation	Supplementary Grant	Total Sanctioned Grant	Actual Expenditure	Saving (-) / Excess (+)
<i>Voted</i>					
Revenue	1,12,680.13	3,109.21	1,15,789.34	1,14,559.15	(-)1,230.19
Capital	63,360.36	2,391.11	65,751.47	63,528.77	(-)2,222.70
<b>Total Voted</b>	<b>1,76,040.49</b>	<b>5,500.32</b>	<b>1,81,540.81</b>	<b>1,78,087.92</b>	<b>(-)3,452.89</b>
<i>Charged</i>					
Revenue	119.69	178.43	298.12	303.91	5.79
Capital	56.32	80.00	136.32	113.96	(-)22.36
<b>Total Charged</b>	<b>176.01</b>	<b>258.43</b>	<b>434.44</b>	<b>417.87</b>	<b>(-)16.57</b>
<b>Grand Total</b>	<b>1,76,216.50</b>	<b>5,758.75</b>	<b>1,81,975.25</b>	<b>1,78,505.79</b>	<b>(-)3,469.46</b>

The above table indicates that out of the total expenditure of IR at ₹1, 78,505.79 crore during the financial year 2010-11, nearly 64 per cent was spent on revenue grants which constituted working expenses on administrative, operational and maintenance activities and 36 per cent was spent on capital grant dealing with creation and augmentation of infrastructure facilities through Assets Acquisition, Construction and their Replacement/Renewal. The table also indicates a savings of 1.05 per cent (₹1,224.40 crore) in revenue grants and 3.41 per cent (₹2,245.06 crore) in capital grant against the sanctioned provisions available in 2010-11.

An analysis of grant wise expenditure revealed that the net saving of ₹3,469.46 crore was a result of savings of ₹6,522.24 crore under five revenue grants, five revenue appropriations<sup>19</sup> and four segments of capital grant, four segments of capital appropriation, adjusted by an excess of ₹3,052.78 crore in ten revenue grants and five revenue appropriations.

### 2.1.1 Revenue Grants

IR operated 15 Revenue Grants. These are functionally clubbed under six distinct groups as listed on the next page:

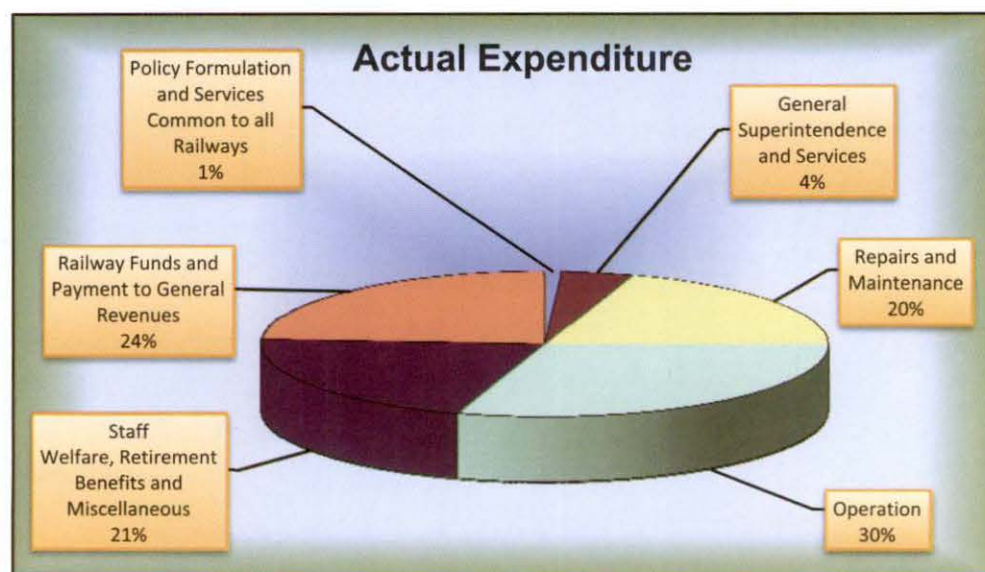
<sup>19</sup> Appropriation refer to expenditure charged on Consolidated Fund of India

Table 2.2- Grants operated by Railways

No.	Particulars	Group
1	Railway Board	Policy Formulation and Services Common to all Railways
2	Miscellaneous Expenditure	
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 Expenditure	
13	Provident Fund, Pension and Other Retirement Benefits	
14	Appropriation to Fund	Railway Funds and Payment to General Revenues
15	Dividend to General Revenues, Repayment of loans taken from General Revenues and Amortization of over Capitalization	

The weightage of group-wise expenditure, in 2010-11, is shown in the Figure given below:

Figure-2.1 Group wise Revenue Expenditure (2010-11)





Group-wise estimates, expenditure and variation under revenue grants are tabulated below:

**Table- 2.3 Group wise Estimates, expenditure and Variation (2010-11)**  
(₹ in crore)

Particulars	Original Grant/ Appropriation	Supplementary Provision	Total Sanctioned Grant	Actual Expenditure	Variation w.r.t. Sanctioned Grant	Percentage variation
Policy Formulation and Services Common to all Railways	770.00	109.01	879.01	816.62	-62.39	-7.09
General Superintendence and Service on Railways	4,203.74	148.65	4,352.39	4,357.81	5.42	0.12
Repairs and Maintenance	22,093.83	340.58	22,434.41	22,777.17	342.76	1.53
Operation	32,895.55	1,537.96	34,433.51	35,008.31	574.80	1.67
Staff Welfare, Retirement Benefits and Miscellaneous	20,945.15	1,151.44	22,096.59	24,212.01	2,115.42	9.57
Railway Funds and Payment to General Revenues	31,891.55	0.00	31,891.55	27,691.15	-4,200.40	-13.17

Broad reasons for variations with reference to sanctioned provisions were as under:

- **Indian Railways Policy Formulation**

Savings were due to lower expenditure towards foreign travel expenses, hospitality & entertainment, non-execution/slow progress of survey works, non-finalisation of tender of some works, incurrence of lower expenditure towards training cost and conducting lesser number of examinations by Railway Recruitment Board, Non commencement of world class station work etc.

- **General Superintendence and Service on Railways**

Excess were due to staff cost and arrears on implementation of Modified Assure Career Progression (MACP), higher payments of advertisement bills and materialisation of decretal payments.

- **Repairs and Maintenance**

Excess were due to staff cost and arrears on implementation of Modified Assure Career Progression, higher contractual payments, and direct purchases, more drawal of stores from stock, more Periodical Overhaul (POH) debits, more expenses on running repairs and maintenance of

power cars, more expenditure towards running repairs in workshops for sick lines.

• **Operations**

Under this group, there was excess under Grant no. 8 and 10 mainly due to higher expenditure on staff cost, more contractual payments, more expenditure on procurement of linen and bed rolls, High Speed Diesel oil, electricity for traction services etc.

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

Excess were due to higher claims of Tuition fee and educational assistance to railway employees, higher contribution to Staff Benefit Fund, more expenditure on ex-gratia pension, more expenditure on leave encashment for pension optees etc.

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

Savings in grant no. 14 – Appropriation to Funds was restricted in view of decline in the internal resource generation and lesser outgo from fund. In grant no. 15 saving occurred as Dividend payable was reduced due to lowering of rate of dividend from seven *per cent* to six *per cent*, as recommended by the RCC for the year 2009-10 & 2010-11.

Grant wise authorisation and expenditure under the revenue and capital grants and appropriations are detailed in *Appendix-2.1*

Analysis of Capital grant is discussed in paragraph 2.6.

**2.2 Financial Accountability and Budget Management**

**2.2.1 Excess over Budget Provision**

The table below gives the grants and appropriations where expenditure was incurred in excess of authorization:

**Table 2.4 Excess Expenditure**

(₹ in crore)

S.No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Excess
<b>Revenue- Voted</b>					
1	Grant No. 3-General Superintendence and Services	4,203.68	148.55	4,357.44	5.21
2	Grant No. 4- Repair and Maintenance – Permanent way and Works	7,156.51	222.29	7,386.56	7.76
3	Grant No. 5 – Repairs and Maintenance – Motive Power	3,348.54	0.00	3,423.60	75.06



S.No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Excess
4	Grant No. 6- Repairs and Maintenance of Carriage and Wagons	7,525.22	53.28	7,799.59	221.09
5	Grant No. 7- Working Expenses- Repairs and Maintenance of Plant and Equipment	4,063.05	64.07	4,166.91	39.79
6	Grant No. 8 -Operating Expenses - Rolling Stock and Equipment	5,604.51	362.43	6,156.82	189.88
7	Grant No. 10- Working Expenses - Operating Expenses- Fuel	15,778.12	594.84	16,771.04	398.08
8	Grant No. 11 - Working Expenses- Staff Welfare and Amenities.	3,315.55	185.46	3,554.96	53.95
9	Grant No. 12 - Working Expenses- Miscellaneous Working Expenses	3,093.25	260.81	4,002.50	648.44
10	Grant No. 13 - Working Expenses - Provident fund, Pension and Other Retirement Benefits	14,417.50	531.24	16,352.71	1,403.97
<b>Revenue- Charged</b>					
11	Appropriation No. 3-General Superintendence and Services	0.05	0.10	0.36	0.21
12	Appropriation No. 6- Repairs and Maintenance of Carriage and Wagons	0.06	0.04	0.14	0.04
13	Appropriation No. 7- Working Expenses- Repairs and Maintenance of Plant and Equipment	0.03	0.00	0.05	0.02
14	Appropriation No. 8 - Operating Expenses - Rolling Stock and Equipment	0.00	0.08	0.09	0.01
15	Appropriation No. 12 - Working Expenses- Miscellaneous Working Expenses	118.21	173.73	301.21	9.27
	<b>Total</b>				<b>3,052.78</b>

Of the ten grants and five appropriations where excess occurred, supplementary provisions were obtained in all except one grant and one appropriation. Incurrence of excess expenditure despite obtaining supplementary grants indicated poor budgetary forecasting.

Reasons for excess expenditure have been discussed in succeeding Paragraph 2.2.2.

Public Accounts Committee (PAC) in its Fortieth Report (15<sup>th</sup> Lok Sabha) on 'Excess over Voted Grants and Charged Appropriations (2009-10) observed that while anticipating the requirements of funds by the Ministry of Railways, estimations could have been projected more realistically by analysing properly the monetary effects of various subheads of expenditure. The indolent Ministry of Railways have not taken any timely corrective measures to improve their budgeting mechanism with a view to avoiding such a huge unauthorised expenditure. Ministry of Railways reply on PAC's observations is still awaited.

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

### 2.2.2 Persistent Excess

There had been persistent excess during 2009-10 and 2010-11 in the grants dealing with repairs and maintenance, operating expenses and Staff Welfare, Retirement Benefits and Miscellaneous as tabulated below:

Table 2.5 Persistent Excess Expenditure

(₹ in crore)

S.No.	Particulars	2009-10	2010-11
1	Grant No. 5- Repairs and Maintenance of Motive Power	90.87	75.06
2	Grant No.6 – Repairs and Maintenance of Carriage and Wagons	164.57	221.09
3	Grant No. 8 – Operating Expenses – Rolling Stock and Equipment	36.31	189.88
4	Grant No. 13 – Provident Fund, Pension and Other Retirement Benefits	1,512.39	1,403.97

IR attributed the excess mainly due to incurrance of more expenditure towards staff cost, more drawal of stores form stock, more direct purchases, more contractual payment, receipts of more debits from pension disbursing authorities on account of implementation of 6<sup>th</sup> pay commission, finalisation of more number of death cum retirement gratuity cases during the year etc.

*The persistent excess in the last two years indicated the failure of IR to properly estimate budgetary requirements and enforce fiscal discipline.*

### 2.2.3 Savings

There were an aggregate savings of ₹6,522.24 crore. However, the savings exceeded ₹100 crore in five cases, as detailed below:



Table 2.6: Savings over ₹100 crore

(₹ in crore)

S. No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Saving
1	Grant No. 14 – Appropriation to Funds	25,283.09	0.00	22,749.89	2,533.20
2	Grant No. 15 – Dividend to General Revenues.	6,608.46	0.00	4,941.25	1,667.21
3	Grant No. 16 – Capital	46,136.98	2,391.10	47,782.50	745.58
4	Grant No. 16 – Railway Funds	15,465.18	0.01	14,608.99	856.20
5	Grant No. 16 – Railway Safety Fund	1,698.40	0.00	1,101.43	596.97

Reasons for these savings were attributed to reductions in funds due to decline in the internal resource generation and lesser outgo from the fund (Grant no.14), Dividend payable was reduced due to lowering of rate of dividend from 7 per cent to 6 per cent recommended by the RCC (Grant no. 15), less materialisation of decretal payment, than anticipated (Grant no. 16- Capital, Railway funds and Railway Safety fund).

#### 2.2.4 Persistent Savings

There had been persistent savings of over ₹100 crore in each of the grants as tabulated below:

Table 2.7 Persistent Savings

(₹ in crore)

S.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Grant No. 14 – Appropriation to Funds	556.55	373.99	6,429.96	4,301.51	2,533.20
2	Grant No. 16 – Capital	997.99	789.47	537.20	2,020.71	745.58
3	Grant No. 16 – Railway Funds		1,634.35	1,723.38	2,815.59	856.20
4	Grant No. 16 – Railway Safety Fund	350.66	517.44	734.56	649.98	596.97

- Savings, during 2006-08, in grant no.14 had occurred because appropriation to Depreciation Reserve Fund and Pension Fund had been reduced due to lower requirement of funds. However, in 2008-11, saving in this grant was attributed to lower generation of internal resources. In 2008-09, savings occurred due to reduction in contribution to CF by ₹7,773.96 crore. In 2009-10, contribution to DRF and DF was curtailed by ₹5,137 crore and no contribution to CF was made as internal generations of resources had decreased substantially. In 2010-11, DRF has been curtailed by ₹ 2,085 crore due to reduced internal resource generation and no contribution to CF made as no money was left for appropriation during the year.

- Savings in grant no.16-Capital and Railway Funds were mainly attributed to slow progress of works, delay in settlement of contractual claims, delay in land acquisition, less booking of expenditure than anticipated, lower expenditure in acquisition of rolling stock etc.
- Slow progress of works, delay in contractual payments, non-finalization of tenders/proposals and delay in land acquisition were the main reason for persistent savings under RSF.

*Instances of huge persistent savings were indicative of poor budgetary estimation by IR.*

### 2.3 Supplementary Provisions

Supplementary provisions amounting to ₹ 5,500.32 crore were taken during 2010-11 in twelve revenue voted grants and three Capital voted grants. Under Revenue grant, these were obtained mainly for higher payment of salary, dearness allowance and other staff cost. Under capital grant, supplementary provisions were obtained as additional support from Central Government for National Projects in Northern and Northeast Frontier Railways. However, budgeting of supplementary provisions proved deficient as expenditure in nine revenue grants still exceeded the sanctioned allocation (Table 2.4 above). In grant no. 2 supplementary provisions of 62 per cent remained unutilized.

Supplementary provisions of ₹ 258.43 crore were obtained under charged appropriations to meet higher decretal payments than anticipated. However, the assessment of supplementary provisions under charged appropriations no. 3, 4, 6 and 9 were either inadequate or excessive by more than 100 per cent. The reasons of such huge variation were explained due to higher/lower materialization of decretal payment than anticipated.

*The above instances of inadequate/excessive supplementary provisions indicated that requirement of funds was not assessed realistically at the time of seeking supplementary provisions. Incurring of excess expenditure despite obtaining supplementary grants was indicative of ineffective budgeting.*

### 2.4 Surrenders

Savings in a grant or appropriation are required to be surrendered as soon as these are foreseen without waiting for the end of the financial year. However, it was seen that the capital segment of grant no. 16 had savings of ₹745.58 crore in 2010-11, out of which ₹356.46 crore was surrendered on 31 March 2011, depriving Government of India of the opportunity of utilising these funds for other departments by correspondingly reducing gross budgetary



support for IR. In two grants (15 and 16-Railway Funds) surrenders exceeded the savings.

In grant no. 5 despite amount exceeding the authorisation by ₹ 75.07 crore, an amount of ₹ 66.72 crore was surrendered.

### **2.5 Budgetary Control by Spending Units**

Budget estimates are usually formulated by IR after taking into account zonal railways requirements which are analyzed and moderated. Rules provide<sup>20</sup> that any fund, during the course of the fiscal year, unlikely to be utilized for a particular purpose for which it was obtained could be re-appropriated, within the provisions of the rules, for some other purpose, or for other spending units (zonal railways). Re-appropriation of funds is done through Final Modification Statement<sup>21</sup> (FMS). Summary of railway-wise grant accounts (grant no.3 to 13) is given in *Appendix-2.2*.

Audit review of the grant accounts of grant no. 3 to 13 of zonal railways revealed the following:

- In 31 cases, funds were surrendered through FMS by zonal railways in excess of availability.
- In 27 cases, zonal railways surrendered funds through FMS despite expenditure exceeding the sanctioned allocations.
- In 23 cases, zonal railways, through FMS, surrendered 50 *per cent* or more of the supplementary provisions allocated to them. It included 15 cases, where 100 *per cent* of the supplementary provisions allocated to them were surrendered.
- In 70 cases expenditure exceeded the sanctioned allocation despite receiving the additional fund. It included 37 cases in which the excess expenditure was more than 100 *per cent* as compared to additional fund which they received, which implies that allotment of additional funds was not done appropriately.
- In 10 cases, Zones did not require the additional funds as expenditure in these cases were less than the sanctioned allocation. Out of these cases it was seen that in seven cases saving was even more than the additional fund re-appropriated to them.

### **2.6 Grant no. 16- Assets, Acquisition, Construction and Replacement**

IR operates one grant for capital expenditure. Grant no. 16 i.e. Works Grant is the largest grant in terms of allocation and area of activities in the field. It

<sup>20</sup>Paragraph 376 of *Indian Railways Finance Code* enumerates the powers of re-appropriation of funds

<sup>21</sup>Final Modification Statement referred to final re-appropriation of fund from one unit to other or from one work to other within the frame work of rules. It is usually done at the fag end of the year.

deals with expenditure on construction, acquisition and replacement of assets of IR. Entire Plan expenditure was formulated, budgeted and incurred through this grant. This grant has four segments and draws its funding from four distinct sources:

- **Capital**-Budgetary support advanced by general budget of GoI,
- **Railway Funds**-Internal resources kept under three different reserves<sup>22</sup>,
- **Railway Safety Fund**-Financed by Railways' share of diesel cess from Central Road Fund and
- **Open Line Works (Revenue)** - New or additional improvement/ replacement works costing less than ₹ one lakh financed from revenue.

Segment wise allocation and expenditure is given below:

**Table 2.8 Segment wise Expenditure under Grant No. 16**

(₹ in crore)

Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
<b>Voted Portion</b>					
Capital	46,136.98	2,391.10	48,528.08	47,782.50	(-)745.58
Railway Fund	15465.18	0.01	15465.19	14,608.99	(-) 856.20
Railway Safety Fund	1,698.40	0.00	1,698.40	1,101.44	(-)596.96
Open Line Works – Revenue	59.80	0.00	59.80	35.84	(-) 23.96
<b>Total Voted</b>	<b>63,360.36</b>	<b>2,391.11</b>	<b>65,751.47</b>	<b>63,528.77</b>	<b>(-) 2,222.70</b>
<b>Charged Portion</b>					
Capital	46.50	80.00	126.50	111.68	(-)14.82
Railway Fund	8.02	0.00	8.02	2.27	(-) 5.75
Railway Safety Fund	1.60	0.00	1.60	0.01	(-) 1.59
Open Line Works – Revenue	0.20	0.00	0.20	0.00	(-) 0.20
<b>Total Charged</b>	<b>56.32</b>	<b>80.00</b>	<b>136.32</b>	<b>113.96</b>	<b>(-)22.36</b>

• **Capital**

In 2010-11, provision of ₹46,136.98 crore was made for acquisition and construction of assets. Additional budgetary support of ₹ 2,391.10 crore was received through supplementary grant for execution of National Projects in Northern and Northeast Frontier Railways.

There was a net savings of ₹ 745.58 crore, against the sanctioned provision, in this segment of the grant. Savings were attributed to slow progress of works,

<sup>22</sup> Reserve Funds were Depreciation Reserve Fund (DRF), Development Fund (DF) and Capital Fund (CF).



non materialisation of contractual liabilities, delay in land acquisition, non execution of works, non finalisation of estimates etc.

- **Railway Funds**

Appropriation Accounts for 'Railway Funds' under grant no. 16, is financed through three sources of funds viz Depreciation Reserve Fund (DRF), Development Fund (DF) and Capital Fund (CF).

- DRF - for replacement/renewal of existing assets
- DF - for all passenger and other users, works including addition and replacement, labour welfare works not exceeding ₹1 lakh each and Safety Works
- CF - for meeting requirement of capital expenditure on construction and acquisition of new assets.

All these funds 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. Though appropriation between these sources of funds is not permissible, a combined Appropriation Accounts for these funds is prepared. Source-wise break-up of sanctioned allocation and expenditure under Railway Funds is tabulated below:

**Table- 2.9- Component of Railway Funds**

(₹ in crore)

Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
<b>Voted Portion</b>					
Depreciation Reserve Fund	9,426.48	0.00	9,426.48	8,698.23	(-) 728.25
Development Fund	2,698.70	0.01	2,698.71	2,580.91	(-) 117.80
Capital Fund	3,340.00	0.00	3,340.00	3,329.85	(-) 10.15
<b>Total Voted</b>	<b>15,465.18</b>	<b>0.01</b>	<b>15,465.19</b>	<b>14,608.99</b>	<b>(-) 856.20</b>
<b>Charged Portion</b>					
Depreciation Reserve Fund	5.42	0.00	5.42	1.86	(-) 3.56
Development Fund	2.60	0.00	2.60	0.41	(-) 2.19
Capital Fund	0.00	0.00	0.00	0.00	0.00
<b>Total Charged</b>	<b>8.02</b>	<b>0.00</b>	<b>8.02</b>	<b>2.27</b>	<b>(-) 5.75</b>
<b>Total Voted and Charged</b>	<b>15,473.20</b>	<b>0.01</b>	<b>15,473.21</b>	<b>14,611.26</b>	<b>(-) 861.95</b>

Analysis of this segment of grant revealed there were net savings of ₹861.95 crore. Against this savings, account of this segment of grant depicted surrender of ₹1,741.69 crore.

Further examination of source wise allocation and expenditure revealed the following:

- **DRF-** Savings of ₹728.25 crore (eight *per cent*) occurred against the sanctioned provisions of ₹9,426.48 crore. This indicated that IR did not carry out renewal/replacement expenditure as planned.
- **DF-** Expenditure of ₹2,580.91 crore was incurred against the provision of ₹2,698.71 crore resulting in savings of ₹117.80 crore.
- **CF-** There was a saving of ₹10.15 crore against the sanctioned grant of ₹3,340 crore.

- **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 un-manned railway crossing and construction of road over/under bridges. It was seen that proposed allocations had never been fully utilized in the last five years as there were continuous savings in this segment of the grant as discussed in Paragraph 2.2.4 above. In 2010-11, 35 *per cent* of the originally allocated funds of ₹ 1,698.40 crore were not utilized. Despite availability of funds there were delays in execution of road safety works. The saving were attributed to slow progress of works, less contractual payments, non/less finalization of tenders, delay in land acquisition etc.

- **Open Line Works (Revenue)**

This segment of the grant was financed from the revenue of IR. Cost of all works (other than passenger amenities works) whether new or additional improvement/replacement, where cost is less than ₹1 lakh, is chargeable to this segment of grant. An amount of ₹23.96 crore constituting 40 *per cent* of the originally allocated funds remained unutilized. The savings were attributed to slow progress of works, non/less finalization of contracts, less materialization of contractual payment etc.

### **2.6.1 Withdrawal/Utilization of Railway Funds**

The table 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 2.10 - Appropriation to Railway Funds and withdrawal there from during the last three years ended 31 March 2011**

(₹ in crore)

<i>Fund</i>	<i>Particulars</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
<i>DRF</i>	Appropriation to Fund(BE)	7,100.00	5,425.00	7,700.00
	Appropriation to Fund(Actual)	7,100.00	2,287.00	5,615.00
	Excess/Shortage	-	(-)3,138.00	(-)2,085.00
	Expenditure/withdrawal from fund	8,371.56	5,731.19	5,585.12
<i>DF</i>	Appropriation to Fund(BE)	947.00	2,000.00	2,800.00
	Appropriation to Fund(Actual)	1,391.00	0.75	1,404.90
	Excess/Shortage	444.00	(-)1,999.25	(-)1,395.10
	Expenditure/withdrawal from fund	2,998.24	3,141.48	2,576.59
<i>CF</i>	Appropriation to Fund(BE)	10,839.74	642.26	373.09
	Appropriation to Fund(Actual)	3,065.78	-	-
	Excess/Shortage	(-)7,773.96	(-)642.26	(-)373.09
	Expenditure/withdrawal from fund	7,522.97	3,282.74	3,329.85
<i>Total (Railway Funds)</i>	Appropriation to Fund(BE)	18,886.74	8,067.26	10,873.09
	Appropriation to Fund(Actual)	11,556.78	2,287.75	7,019.90
	Excess/Shortage	(-)7,329.96	(-)5,779.51	(-)3,853.19
	Expenditure/withdrawal from fund	18,892.77	12,155.41	1,1491.56

From the above, it is seen that the appropriation to the funds (except DRF in 2008-09) was not made as per budget projections due to lower availability of funds during the last three years. The 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 extent the working expenses could bear.

Further, due to less generation of revenue surplus, the appropriation to DF and CF also could not be made as per the budget estimates.

Withdrawal from the funds in almost all the three years was more than the amount appropriated to the funds.

### **2.6.2 Re-appropriation within Grant no. 16**

Works/activities under each segment of the grant were grouped under 33 number of Plan Heads (Minor Heads of Account) like Construction of New Lines, Doubling, Gauge Conversion, Rolling Stock etc. Investment decisions which form the budget estimates for construction, acquisition and replacement of assets (Works Budget) were processed through the annual "Work, Machinery and Rolling Stock Programme" prepared on the basis of advance and continuous planning process.

Despite detailed exercise in formulation of Works Budget of capital grant, non-utilization of sanctioned grant besides large scale re-appropriation of original allocated funds as mentioned below, had been noticed.

- In Capital segment of the grant, the following was observed:

Estimates for requirement of funds proved incorrect as additional funds from other plan heads were provided through re-appropriation for Gauge Conversion (₹1,012 crore- 46 per cent<sup>23</sup>), Rolling Stock (₹1,519 crore- 101 per cent), Doubling (₹288 crore-16 per cent), Miscellaneous Advance (₹228 crore- 49 per cent) and Dividend Free Projects (₹320 crore- 51 per cent).

Non-utilization and surrender of funds ranging from ₹0.31 crore to ₹2,239 crore were noticed in the plan heads. However, the substantial variation was noticed in the sub head viz., Traffic facilities – Yard Remodeling and others (₹287 crore- 44 per cent), Signal and Telecommunication (₹138 crore- 76 per cent), Other Electric Works (₹90 crore- 69 per cent), Manufacturing Suspense (₹2,239 crore- 12 per cent), Investments in Non-Government Undertakings including JVs/SPVs (₹647 crore- 50 per cent) and Metropolitan Transport Projects (₹453 crore- 45 per cent).

It was also noticed that in 2010-11, Metropolitan Transport Projects surrendered ₹453 crore and MTP/Kolkata alone surrendered ₹414 crore. This prevented scarce funding for use elsewhere.

It was noticed that there was surrender in the Manufacturing Suspense amounting to ₹1,741.96 crore and ₹2,239.07 crore in 2009-10 and 2010-11 respectively.

➤ In Railway Funds segment of the grant, the following was observed:

Under-estimation of the requirement of funds resulted in provision of additional funds for Doubling (₹23 crore -765 per cent) and Workshops including production units (₹94 crore - 50 per cent)

Heavy surrenders and non-utilization of funds were noticed in plan heads dealing with Gauge Conversion (₹29 crore- 59 per cent), Computerization (₹128 crore- 55 per cent), Traffic facilities – Yard – Remodeling and other (₹135 crore – 24 per cent), Railway Research (₹34 crore- 44 per cent) and Passenger and other Railway User Amenities (₹389 crore- 30 per cent)

Further, in 17 number of plan heads<sup>24</sup> injudicious surrender/re-appropriation of un-utilized funds to activities under other plan heads was much more than the net savings resulting in excess expenditure with reference to final grants.

***Large scale changes in priorities and re-appropriation of originally allocated resources from one plan head to another or from one railway to***

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<sup>23</sup> Percentage was with reference to sanctioned grant.

<sup>24</sup> Eight under Capital segment, eight under Railway Funds segment and one under Open Line Works (Revenue) segment,



*another were indicative of the lack of reliability in preparation of budgetary estimates for assets acquisition, construction and replacement/renewal. This not only had affected the long term advance planning of construction and acquisition of assets but also schedules of completion of works/projects.*

To sum up the analysis of the capital grant revealed

- **Poor planning and estimating**
- **Weak links between policy making, planning and budgeting**
- **Inadequate relationship between budget as formulated and budget as executed**

### **2.7 Defects in Budgeting**

A large number of instances of defective budgeting (384 cases) involving excess/savings beyond the prescribed limits<sup>25</sup> were noticed. Western (58 cases), North Central (59 cases), Northern (32 cases) and Eastern (32 cases) were the railways with most number of cases on defective budgeting.

IR need to take a comprehensive relook at its budgeting process and make the projections more realistic, so as to ensure that funds are fully utilised for the purposes sanctioned by Parliament.

### **2.8 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 2010-11 – 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 on misclassification of expenditure from capital to deposit heads of accounts were also identified in audit. Misclassification of expenditure from revenue to capital head of accounts or capital to deposit heads understated the revenue and capital expenditure in the accounts. A few of such misclassifications are listed in Appendix – 2.3.

Test audit revealed that expenditure of ₹ 15.49 crore pertaining to revenue heads of account was misclassified to capital heads of account and ₹10.01 crore from capital heads of account to revenue heads of account thereby understating the revenue expenditure to the extent of ₹5.48 crore. Further, expenditure under grant no. 16 - Railway Funds was understated by ₹3.85 crore as it was misclassified to grant no. 16 - Capital.

<sup>25</sup> Paragraph 409 & 410 of Indian Railways Finance Code prescribed limit for permissible variations which is 5 per cent or ₹ 50 lakh whichever is less and for grant no.16- it is 10 per cent or ₹ 100 lakh whichever is less.

*Despite being pointed out by Audit and the Public Accounts Committee repeatedly, adequate attention was not paid at various levels to eliminate/cases of misclassification of expenditure.*

### **2.9 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 objection books by the zonal railways administration and treated as unsanctioned expenditure.

A review of such expenditure held under objection disclosed an increasing trend from ₹5,297 crore as of March 2009 to ₹6,205 crore as of March 2010 and ₹6,272 crore as of March 2011. Unsanctioned expenditure as of 31 March 2011, included ₹4,498 (71 per cent) related to items which were more than two years old.

Increasing trend of unsanctioned expenditure indicated the inaction on the part of the administration to get the unsanctioned expenditure regularised besides poor internal check mechanism.

### **2.10 Conclusion and Recommendations**

IR had continuously been incurring expenditure over and above the budgetary provisions sanctioned by Parliament. Instances of misclassification of expenditure continued to occur regularly in the railways accounting system. Public Accounts Committee (PAC) had time and again expressed its displeasure over incurring expenditure in excess of the sanctioned grants which was a clear indication of poor budgeting by IR. The Committee had also repeatedly taken a serious view of the recurring instances of misclassification of expenditure.

#### **Recommendations**

- *IR should strengthen its budgetary mechanism and system of expenditure control so that instances of huge savings, expenditure over and above authorization are minimized.*
- *IR should also explore a mechanism of estimating supplementary grants more realistically so that fiscal discipline is maintained.*
- *IR should fortify its internal controls to effectively reduce the instances of misclassification of expenditure. Deterrent sanctions should be put in place to foster greater responsibility at the level of key controlling officers.*



## **Chapter 3 Transparency in Budgeting and Financial Management in Indian Railways**

### **3.1 Introduction**

Budget is an annual exercise for detailing the roadmap for generating resources and their efficient use. It is a legal document that is passed by the legislature, and approved by the chief executive. It provides a forecast of revenues and expenditures, and allows us to predict our performance financially if certain strategies and plans are carried out. It enables us to determine how well the government has performed against the forecast. Budgets have an economic and political basis. Government budgets are not entirely designed to allocate scarce resources for the best economic use. They also have a political basis wherein different interests push and pull in an attempt to obtain benefits and avoid burdens.

The Constitution of India prescribes vide Article 112(1) of that 'the President shall in respect of every financial year cause to be laid before both the Houses of Parliament, a Statement of the estimated receipts and expenditure of the government for that year' referred to as the "annual financial statement" and popularly called the "Annual Budget". The constitution requires that the 'financial statement' shall contain a statement of the estimated receipts and expenditure for the coming financial year. As a matter of convention, every budget contains three elements-

- (a) A review of the preceding year, including the actual receipts and expenditure in that year;
- (b) An estimate of the receipts and expenditure of the coming year; and
- (c) Proposals, if any, for meeting the requirements of the coming year.

The Railway Budget is presented to both Houses of Parliament separately from and ahead of the General Budget. Though the Railway Budget is separately presented to Parliament, the figures relating to the receipts and expenditure of the Railways form part of the General Budget, since the receipts and expenditure of the Railways are part of the total receipt and expenditure of the Government of India. The provision relating to 'Railway Budget' as contained in Para no. 301 of Indian Railway Financial Code (IRFC) Volume-I inter alia states that 'though the Constitution does not provide for the presentation of the annual financial statement or Budget in parts, the Rules of Procedure of Parliament have provided that nothing shall be deemed to prevent the presentation of the Budget to the house in two or more parts and when such presentation takes place, each part shall be dealt with in accordance

with the rules as if it were the Budget'. This provision has enabled the Separation of the Railway Budget from the General Budget and the passing of separate Appropriation Acts for each of these Budgets in keeping with the Separation Convention (1924).

To ensure greater equity in Fiscal management and long term Macroeconomic stability, the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was passed by an act of Parliament on August 26, 2003. The Act came into force on July 5, 2004. The main objective of this Act was to ensure inter-generational equity in fiscal management and long-term macroeconomic stability. It also aimed at prudential debt management consistent with fiscal sustainability and greater transparency in fiscal management of the Central Government.

Section 6 (1) and (2) of the FRBM Act 2003 prescribes that the Central Government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest and minimize as far as practicable, secrecy in the preparations of annual financial statement and demands for grants. It also committed to make such disclosures as prescribed at the time of presentation of the annual financial statement and demands for grants.

Transparency in the budget processes help instill a sense of accountability in the policy makers, and bring better perspective and strategies and encourage timely and effective implementation of the budget proposals. It also helps to attain greater legislative control over the budget process, and create public confidence in the willingness as well as the ability of the government to work for people.

Transparency in government budgeting could be considered to be based on four principles viz.

- Open budget process,
- Public availability of information
- Clarity of roles and responsibilities and
- Assurance of integrity.

The present chapter examines the extent to which transparency in budgeting and financial management exists in IR.

### **3.2 Open Budget Process**

The budget process and information presented in the budget documentation are central to fiscal transparency. The Annual budget of IR is an occasion on which IR presents its expenditure proposals and the means by which it will finance them. Thus, the information provided at the time of annual budget



should cover all financial activities, irrespective of the institutional arrangement under which they take place.

### **3.2.1 Statements of Fiscal Policy**

The FRBM Act, 2003 provides that the Central Government shall lay in each financial year before both houses of Parliament the following statements of fiscal policy along with the annual financial statement and demands for grants, namely:

- (a) The Medium Term Fiscal Policy Statement,
- (b) The Fiscal Policy Strategy Statement and
- (c) The Macro-economic Framework Statement.

- The Medium-Term Fiscal Policy Statement should indicate a three-year rolling target for prescribed fiscal indicators with specification of underlying assumptions. This policy should also include an assessment of sustainability relating to the balances between revenue receipts and revenue expenditure and the use of capital receipts including market borrowings for generating productive assets.

In the context of IR, the Medium Term Fiscal Policy Statement would indicate a three year rolling target for fiscal indicators like projected net surplus i.e., excess of revenue receipts over revenue expenditure, and its investment strategy for capacity augmentation and means of financing the same. IR would need to indicate its strategic priorities regarding subsidy on passenger services and subsidized freight charges for carrying essential commodities.

- The Fiscal Policy Strategy Statement indicates the policies of the Central Government for the ensuing financial year relating to taxation, pricing of administered goods & services etc. It should also indicate the strategic priorities of the Central Government for the ensuing financial year in the fiscal area. Further, the key fiscal measures and rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, administered pricing and borrowings. An evaluation as to how the current policies of the Central Government are in conformity with the fiscal management principles and objectives set out in the Medium-term Fiscal Policy Statement should also be included.

The Fiscal Policy Strategy Statement of IR would require indication of its policies relating to pricing of services provided, expenditure, investment strategy and use of capital receipts including its internal resources as well as support from general budget and extra budgetary resources for asset

creation. IR would need to indicate its strategic priorities regarding its pricing policy, subsidy on passenger services and subsidized freight charges for carrying essential commodities. It would also include a disclosure of any deviation from already spelt out policies in Medium Term Fiscal Policy Statement either for the current year or during the course of previous financial year.

- The Macro-economic Framework Statement of the Central Government contains an assessment relating to growth of gross domestic product, the fiscal balance of the Union Government as reflected in the revenue balance and gross fiscal balance and the external sector balance of the economy as reflected in the current account balance of the balance of payments.

In the context of IR, this statement would need to indicate an assessment of the growth strategy of the IR with specification of the underlying assumptions. The balances under various railway reserve funds needed to sustain its replacement/renewal expenditure need to be delineated along with investments required for creation of new assets for achieving the targeted growth rate. More specifically, the dependence of IR on the general budget and extra budgetary resources for financing its plan expenditure would need to be delineated in such a statement.

Ministry of Railway does not lay any of these Statements in Parliament. In response to an audit query<sup>26</sup>, Ministry of Railways stated that the fiscal policies of the government are in the domain of the Ministry of Finance and it being only a department of the Government of India, IR does not present any such statements. The response of the Ministry is not acceptable as FRBM Act, which extends to the whole of Government of India, is equally applicable to IR. Moreover, since the budget of the Ministry of Railways is a part of the budget of Government of India it must fulfill the requirements of the Act in the same manner as the Ministry of Finance.

In the absence of these statements, an analysis of information provided in the annual budgetary documents indicated that following aspects of the financial performance of IR remain undisclosed:

- Changes in freight and fare structure brought out during the year.
- Investment strategy for the short and medium term including means of financing the same.

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<sup>26</sup> *Consolidated reply to Chapter-3 from Railway Board is still awaited.*



- Provisions for fund to finance assets due for replacement/renewal that is essential to maintain operational safety. Presently, contribution to Depreciation Reserve Fund (DRF) is being made on need and availability basis instead of actual requirement as per life and physical condition of the asset.

In the absence of a Medium Term Fiscal Policy Statement (MTFP), IR failed to assess and make sufficient provisions for expenditure on account of implementation of recommendations of 6<sup>th</sup> CPC. This led to adjustment of accounts by transferring fund from Depreciation Reserve Fund, which was already underfunded, to Pension Fund in 2009-10, to absorb debits from pension payment authorities received at the end of the year. This was necessary to keep expenditure within available resources. The operating ratio which showed continuous improvement from the year 2003-04 to 2007-08 with the remarkable achievement of 75.94 *per cent* in 2007-08, deteriorated sharply to 95.28 *per cent* during 2009-10. Such sharp fluctuation in the financial performance could have been evened out if requirement of presenting MTFP had been adhered to.

### **3.2.2 Extra Budgetary Activities**

Plan expenditure of IR is financed partly by extra-budgetary support from Indian Railway Finance Corporation, State Governments (Metropolitan Transport projects), Public Private Partnership activities etc. Activities financed through extra-budgetary funds need to be integrated into the budget process, so that overall fiscal control is maintained. Such activities should be identified in the annual budget, along with a statement of the purpose or policy rationale. By keeping these proposals outside the Budget Estimates a significant part of IR's financial activities has not been subject to Parliamentary Approval.

Ministry of Railways, in response to an audit query, stated that while formulating the Railway Plan these projections are discussed with Planning Commission. The estimates for the extra budgetary resources are part of the budget proposals that is approved by Minister of Railways and Finance Minister. After that, these figures are mentioned as a footnote in the Demands for Grants which is presented to Parliament.

The reply is not tenable in view of the following:

- 1) Footnote in the Demands of Grants merely discloses the amount proposed to be raised through borrowings by IRFC, RVNL, and funding through Public Private Partnership etc., but fails to disclose the funds raised from

state governments to meet Capital Expenditure from the funds outside the budget, in respect of the following projects.

- Belapur-Seawood-Uran (27 KM) project-sanctioned in 1996-97 (costing ₹ 495.44 crore) with cost sharing between Railways and City industrial Development corporation in 1:2 ratio.
- Mumbai Urban Transport Project Phase-I - sanctioned in 2003-04 at an anticipated cost of ₹ 4,174.40 crore with cost sharing between Railways and State Government of Maharashtra in 1:1 ratio.
- Mumbai Urban Transport Project Phase-II - sanctioned in 2008-09 at an anticipated cost of ₹ 5,300 crore with cost sharing between Railways and State Government of Maharashtra in 1:1 ratio.
- Extension of Mass Rapid transport System Phase-II from Velachery to St. Thomas Mount (5 km.)- sanctioned at a cost of ₹ 495.74 crore with cost sharing between Railway and State Government in 1:2 ratio.

By not disclosing this capital expenditure, the actual assets created by IR remain understated.

- 2) Further, a reference is invited to Budget Documents namely 'Explanatory Memorandum on the Railway Budget- Table VI' and 'Outcome and Performance Budget of Railways - Box-2', which contain the information relating to physical targets vis-à-vis achievement of IR with respect to rolling stock for the year and the total assets of IR respectively. It is seen that these documents do not disclose the information regarding the number of rolling stock added to the fleet of IR through funding from IRFC.

### **3.2.3 Budget Execution, Monitoring and Reporting**

Clear procedures for budget execution, monitoring and reporting need to be laid down to ensure financial transparency. This includes a good Accounting system (which can effectively track revenues, commitments, payments and arrears) and presentation of audited final accounts and audit report to the legislature within a year. Transparent budget execution relies on having an accounting system with comprehensive coverage of all transactions relating to government expenditure and revenue collection, and a system of effective internal controls. Even if the accounting system is cash-based, fiscal transparency requires that the system records commitments as well as payments in order to effectively monitor arrears.

#### **3.2.3.1 Assessment of Arrears/Liabilities**

Government accounting systems should be able to provide sufficient information to assess arrears in expenditure/revenue receipts. Cash accounting in government understates the real financial status of the government to the extent that government has substantial or persistent payment arrears to



supplier, employees, or pensioners etc. Thus, for transparency, cash accounts should be supplemented by accounts-based reports of bills due for payment to assess total liabilities.

IR has an established accounting system based on financial rules and Codes. Though, it has a system to account for un-realized revenue but it does not provide for assessment of liabilities. It also does not capture information at the commitment stage. Issue was taken up with the Ministry of Railways, which stated that there is no separate head/primary unit for capturing the arrear payments due. However, broad assessment of arrears is made for budgetary purposes on the basis of parameters available for payment of such arrears as per the policies/sanctions issued, base year data and other information available.

The reply is not tenable as it was seen that system of assessment even for salaries and pension payments was not realistic as there were substantial variations between both original and revised estimates and actual expenditure reported in 2008-09 and 2009-10. These variations were stated to be on account of implementation of 6<sup>th</sup> Central Pay Commission recommendations. It was also seen that unexpected debits on account of payment of arrears to pensioners were received from pension payment authorities at the close of 2009-10, which forced the ministry to increase availability of finances in Pension Fund. Thus it is essential to amend the codes and manual of IR so as to assess the arrears of salary/pension as also other liabilities at the end of financial year.

### **3.2.3.2 Mid-Term Assessment**

FRBM Act 2003 provides that the Minister-in-charge of the Ministry of Finance should review every quarter, the trend in receipts and expenditure in relation to the budget and place before both Houses of Parliament the outcome of such review. The issue was taken up with the Ministry, which stated that review of receipts and expenditure is done regularly on the basis of trend available as per the monthly account current vis-à-vis the budget proportions. Quarterly financial progress of the railways is also reported to the Finance Minister. The midterm review of Railway receipts/expenditure is also conducted through the August Review Estimates, which form basis for finalizing the Revised Estimates presented to Parliament along with the Budget Estimates for the next year.

Audit observed that the trends in receipts and expenditure in relation to the budget are discussed only internally. No midterm review of receipts and expenditure is placed by Minister-in-charge of Railways before Parliament as required under the FRBM Act. This keep the Parliament informed of current



Fiscal developments of IR. Further, placing this report before Parliament, if done, would enable the Government to take appropriate corrective measures to increase the revenue or reduce the expenditure to the pre-specified levels mentioned in the fiscal policy strategy statement during the course of the year. Such reporting to Parliament would also set the stage for policy corrections at the stage of presentation of Railway budget.

### 3.2.3.3 *Supplementary Budget*

An important feature of transparent budgeting is that supplementary expenditure proposals during the financial year should be presented to the legislature in a manner similar to the original budget. Moreover, provisions of Indian Railways Finance Code (Volume-I) also stipulate that estimates of supplementary grants/Appropriations submitted by the Ministry of Railways to the vote of Parliament/President in the same way as the original 'Demands for Grants/Appropriations'.

It was, however, seen that IR does not present supplementary grants/appropriations in the same format as the original Demand for Grants presented to Parliament. The supplementary demand for grants presented by the Ministry indicates only the Railway-wise allocations against each grant. This results not only in violation of the codal provision prescribed in IRFC Volume-I but also leads to lack of control over allocations/expenditure of supplementary grant.

### 3.2.3.4 *Expenditure in excess of Parliament Authorization.*

Fiscal management requires that no public funds are spent without appropriation sanctioned by the legislature. It should be ensured that authorization is comprehensive and should include all government transactions, including those through extra-budgetary funds.

Despite a clear regulatory fiscal management system IR has been incurring expenditure more than that authorized by legislature which is later being regularized. It could be seen from the table below that the percentage of excess expenditure to the effected Grants is continuously on the increase.

**Table 3.1- Expenditure in excess of Authorization**

Year	Excess expenditure (₹in crore)	Excess expenditure as percentage of sanctioned grant
2008-09	519.81	1.88
2009-10	1,929.61	3.19
2010-11	3,052.78	4.14



### **3.2.3.5 Audited Accounts and Report**

The budgetary documents placed in parliament by IR generally include the following documents;

- Budget Speech
- Budget Statement
- Demands for Grants
- Explanatory memorandum on Railway Budget
- Works, Machinery and Rolling Stock Programme
- Outcome and Performance Budget
- Appropriation Bill

Good practices of transparency require that the government should prepare year-end report to demonstrate key results achieved and to outline a comprehensive overview of the government's financial assets and liabilities and contingent liabilities. The year-end report should explain any deviation from compliance with the level of revenue and expenditure authorized by the legislature in the budget. Further, final accounts should explain any deviations from the budget as adopted by the legislature.

The issues as discussed in the preceding section were raised with Ministry of Railways which stated that assessment of physical targets and financial outlay in the budget are reviewed at the revised estimates stage. Information relating to certain salient works relating to safety, capacity enhancement, etc is printed both for the budgeted and the revised targets in the budget documents like "Explanatory Memorandum" and "Outcome Budget" which form part of the budget documents presented to Parliament.

The reply is not tenable as the budget documents do not indicate reasons for deviation from compliance with the level of revenue and expenditure authorized in the budget. Similarly, there is no disclosure in the budget papers of modifications introduced during the course of financial year in the freight and fare structure after the presentation of the previous year's budget. In the absence of such a disclosure financial performance of IR as shown in the budget statements would not meet the standard of 'fair presentation' as an upward revision in fare structure would have led to improvement in financial performance even though the physical targets may remain the same.

It was further seen that IR did not prepare a year-end report demonstrating key achievements on measures proposed in the Railway Minister's Budget Speech. A test check of the last three years' Railway Minister's budget speech and Outcome Budget revealed the following:



Table 3.2- Status of implementation of Budget Announcements

Reference no. of Budget Speech Year (Para No.)	Brief of Budget Announcements as made in Budget Speech	Status of Implementation as given in Outcome Budget <sup>27</sup> of relevant year	Remarks
2008-09 (15), 2009-10 (23)	<b><u>Tickets booking through UTS (Unreserved Ticketing System) and Automated Vending Machine (AVM)</u></b> 2008-09-UTS counters were announced to be increased in next two years from 3000 to 15000, AVM from 250 to 6000. 2009-10-UTS- to be increased from 5000 to 8000, AVM would be installed at 200 large and medium size stations.	2011-12- With a view to facilitate issuing of un-reserved tickets, Jansadharan Ticket Booking Sewaks (JTBS) are being appointed in city areas. They are provided UTS terminals and are allowed to realize commission from the passengers. At present around 438 JTBS have been appointed on different Zonal Railways.	These two pronouncements have no clarity/transparency as no list of stations which were identified for installation of UTS have been submitted in the budget. The outcome listed has no correlation with the targets announced in the budget speech.
2008-09 (22), 2009-10 (20) 2010-11 (79)	<b><u>Provision of Green Toilets</u></b> 2008-09- provision of green toilets in all 36000 coaches by the end of 11 <sup>th</sup> plan period 2009-10-field trials are being conducted for green toilets and also for vacuum toilets similar to aircraft 2010-11-introduce at least 10 rakes with green toilets	2010-11 and 2011-12-Different designs/technologies for 'green toilets' have been put to field trials for performance evaluation before considering adoption as a regular measure.	(i) Despite being announced in three years consecutively still at an experimental stage. (ii) The announcement made on February 25, 2008 for provision of green toilets in all 36000 coaches without completing field trials was unrealistic.
2008-09 (26), 2009-10 (15)	<b><u>On board cleaning of passenger trains</u></b> 2008-09 - On board cleaning on all Rajdhani, Shatabdi and Superfast Mail and Express trains will be carried out	2010-11 The scheme has been implemented in 110 pairs of trains. Action is underway to further proliferate the scheme to all other	There is no clarity in the Outcome budget as to whether targets indicated in the budget speech have been completed.

<sup>27</sup> Outcome and Performance Budget of Railways placed for any particular budget year, bring out the achievements/highlights that the railway has tried to deliver up to two years preceding the budget year.



	<p>through trained manpower of professional agencies using modern machines and material</p> <p><b>2009-10</b> - During current year On Board House Keeping Scheme (OBHS) will expand to cover 200 additional pairs of trains</p>	<p>identified trains.</p> <p><b>2011-12</b> the scheme has been implemented in 290 pairs of trains. Action is underway to further proliferate the scheme to all other identified trains.</p>	
<p><b>2008-09</b> (71), <b>2009-10</b> (29) <b>2010-11</b>(34)</p>	<p><b><u>Anti Collision Device (ACD)</u></b></p> <p><b>2008-09</b> – pilot project started in NEFR, encouraging results yielded, this will be extended on three railways- SR, SCR and SWR in the next two years.</p> <p><b>2009-10-</b> made operational on 1736 Rkm in NEFR, 1700 Rkm on three railways - SR, SCR and SWR planned to complete in two years.</p> <p><b>2010-11-</b> already installed in NEFR, and is now proposed to extend to three more zonal railways,</p>	<p>Status not furnished in Outcome Budget of both years.</p>	<p>The announcement has been made in three years consecutively. Status of implementation of these proposals has still not been furnished.</p>
<p><b>2009-10</b> (12) <b>2010-11</b> (24)</p>	<p><b><u>World Class Stations</u></b></p> <p><b>2009-10-</b> to develop about 50 stations as world class stations (list of 35 such stations furnished)</p> <p><b>2010-11-</b> 10 more stations identified to be converted into world class stations (list of 10 stations given.)</p>	<p><b>2011-12-</b> the fifty railway stations in Metro and Mini metro cities have been identified for development as World Class Stations.</p>	<p>Status of progress in development of the stations has not been indicated.</p>
<p><b>2009-10</b> (13), <b>2010-11</b> (23)</p>	<p><b><u>Adarsh Stations</u></b></p> <p><b>2009-10-</b> to develop 375 stations as Adarsh stations (list of 309 such stations identified and given in Budget speech),</p> <p><b>2010-11-</b> 94 more</p>	<p><b>2011-12</b> In order to develop stations as Adarsh Stations, <b>584</b> stations have been identified. Out of 584 identified stations, work of development</p>	<p>The information relating to no. of stations contained in two budget documents is in consistent with</p>



stations identified to be developed as Adarsh stations (list of 94 such stations given)	as 362 Adarsh stations has been completed by January 2011.	each other.
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During test check it was also noticed that the Status of implementation of Budget proposals/Announcements made in Budget speech was not indicated in the outcome budget in respect of the following Projects/Schemes:

**Table 3.3- Budget Announcements where implementation status not disclosed**

Reference no. of Budget Speech Year (Para No.)	Brief of Budget Announcements as made in Budget Speech	Status of Implementation as given in Outcome Budget of relevant year
2008-09	Provision of on-line monitoring of Rolling Stock (OMRS) through acoustic bearing detectors and wheel impact load detector (WILD)	Status not furnished in Outcome Budgets of relevant years.
2009-10 (24), 2010-11(31)	Introduction of Mobile ticketing vans - "Mushkil Aasaan"	Status not furnished in Outcome Budgets of relevant years.
2009-10	Running of Special trains to carry perishable products like fruit and vegetables, fish etc	Status not furnished in Outcome Budgets of relevant years.
2009-10	Running of superfast parcel trains on 3 routes	Status not furnished in Outcome Budgets of relevant years.
2010-11	Provision of automatic fire and smoke detection system in 20 pairs of long distance trains - a Pilot project	Status not furnished in Outcome Budgets of relevant years.
2004-05, 2005-06, 2009-10	Setting up of Rail Wheel Factory - Chhapra	Status not furnished in Outcome Budgets of relevant years.
2007-08	Setting up of Electric Locomotive Factory - Madhepura	Status not furnished in Outcome Budgets of relevant years.
2008-09(97), 2009-10 (47), 2010-11(65)	Setting up of Rail Coach Factory - Kerala	Status not furnished in Outcome Budgets of relevant years.
2010-11	Setting up of Rail Coach Factory - Kancharapara	Status not furnished in Outcome Budgets of relevant years.
2010-11	Setting up of Diesel Multiple Unit - Sankrail	Status not furnished in Outcome Budgets of relevant years.
2010-11	Setting up of Rail Axle Factory - New Jalpaiguri	Status not furnished in Outcome Budgets of relevant years.



It is thus seen from Table 3.2, that proposals were announced repeatedly in Budget speeches in one form or the other, without indicating actual status of their implementation in the Outcome Budget. Further, in the outcome budget there was no clarity on the status of implementation of the budget announcements made.

Audit observed that the Government of India budget documentation includes a separate document called 'Status of Implementation of Announcements made in Finance Minister's Budget Speech of the previous financial year'. However no such document is placed before Parliament along with the budget documents by the Ministry of Railways.

### **3.3 Public Availability of Information**

Making fiscal information available to the public is a defining characteristic of fiscal transparency. It requires provision of comprehensive information covering past, recent and future performance, fiscal risk, contingent liabilities, quasi-fiscal activities, revenue resources, debt and financial assets, and fiscal risk.

#### **3.3.1 Past, Present and Future Performance information**

For a more complete picture of the current fiscal position, information on past fiscal performance should be presented in the annual budget. Transparency in budgeting requires that original and revised budget estimates for at least two preceding years together with the actual expenditure should be included with the annual budget. Forecasts for at least two years beyond the budget year should also be included based on realistic assumptions about growth in GDP and consistent with stated policy objectives over the medium term.

IR budget provides information only on Budget estimates of the ensuing budget year, budget estimates and revised estimates of the year preceding the budget year and actual of the year immediately before the preceding year. Audit observed that the Medium Term Fiscal Policy Statement placed by Government of India in Parliament provides targets for two successive years beyond the budget year. This statement indicates the major fiscal indicators of the Government as a percentage of GDP. The basis of making these projections for the future are also discussed in the statement.

In the context of IR this would require indication of targets for net surplus i.e. excess of revenue receipts over revenue expenditure, dependence on the general budget and extra-budgetary resources in the next two years.

### 3.3.2 Concession, Contingent Liabilities, Subsidy and Fiscal Risk

To ensure greater transparency in fiscal operation the concessions granted by the IR, their contingent liabilities and fiscal risk should be part of the budget documentation. IR budget does not disclose the following information:-

- Concessions given by IR is a form of revenue foregone and can be regarded as a targeted subsidy. IR provides free railway travel passes to its employees, concessions to various categories of passengers like senior citizens, physically handicapped persons, student, freedom fighters etc. as well as to essential commodities of freight traffic like fruits and vegetables, paper, bamboo, cotton etc. Though the cost of concessions given on movement of freight traffic (commodities carried below cost) are disclosed in the supporting documents to the budget, the cost of concession given to the various categories of passengers/employees are not disclosed.
- Contingent liabilities are costs that the government will have to pay if a particular event occurs. Under the cash accounting system, contingent liabilities are recognized only when the contingency actually occurs and payment is made. No disclosure of any contingent liabilities like pending court cases, arbitration cases, disputed claims etc are disclosed by IR in budget documents or final accounts.
- The financial arrangements entered into by Ministry of Railways with IRFC and RVNL indicate the existence of implicit guarantee. The details are discussed below:-
  - IRFC has been borrowing from the market for creation of rolling stock assets for the Ministry of Railways. Borrowings of ₹ 9,017.79 crore in 2009-10 and ₹ 9,680.29 crore in 2010-11 were made for purchase of rolling stock to be used by IR. Repayments to the tune of ₹ 5,367.24 crore in 2009-10 and ₹ 6,338 crore in 2010-11 were made. These carry an implicit guarantee of Ministry of Railways as IRFC has first charge on the rolling stock acquired by the Railways through IRFC borrowings. As on 31 March 2011 Ministry of Railways owes IRFC ₹ 36,182.68 crore.
  - RVNL has been allowed by IR to take loan from IRFC for financing project execution of IR. The principal and cost of borrowings, on the borrowings from IRFC are repaid by MoR through RVNL. Amount of such loan, for which MoR is committed to make repayments to IRFC on behalf of RVNL, stood at ₹ 1,871 crore as on 31st March 2010 in the books of RVNL. Though these loans do not carry any explicit guarantee of IR, these are being repaid by them through their budgetary allocations.



### 3.4 Clarity of Roles and Responsibilities

Transparency requires that government sector should be distinguished from the rest of the public sector and from the rest of the economy. Administrative framework clearly defines role and responsibilities of various wings to promote accountability and good governance.

#### 3.4.1 Relationships between the Government and Public Corporations/Undertakings owned in whole or in partly by the government need to be clearly stated to ensure transparency

Financial Relationships between the government and public corporations/undertakings owned in whole or in partly by the government need to be clearly stated to ensure transparency. During Audit of Accounts of IR for the year 2010-11 it was observed that the relationship between MoR and its PSUs was not clearly delineated. The major issues are discussed below:-

- Statement no. 11 regarding the Investment of the Union Government in Statutory Corporations, Govt. Companies, other joint stock companies, co-operative banks and societies, etc. forms part of the Finance Accounts of IR. It contains the details of total investment of IR with respect to number, type, face value of shares along with the percentage of shareholdings in each public sector undertaking. However for the year 2010-11, this statement is depicting an inadequate picture in respect of its investment in PSUs. During audit of accounts of IR, the following shortcomings accounting of equity/bonus/preference shares have been noticed:-
  - Equity Shares numbering 4935600, 40999900 and 39900000 amounting to Rs. ₹ 85.83 crore allotted to IR as Bonus shares by Ircn International Limited (IRCON), Container Corporation of India Limited (CONCOR) and RITES Limited (RITES) respectively in the previous years have neither been depicted in statement no. 11 nor accounted for in the accounts of IR in the respective years.
  - Equity shares numbering 305938400 amounting to ₹ 305.94 crore issued to Railways 'For consideration other than cash' by RailTel Corporation of India Limited (RCIL) have neither been depicted nor accounted for in the accounts of IR. Further, the value of assets transferred by IR in lieu of equity and the year of transfer required to be disclosed have also not been depicted.
  - Equity shares numbering 27350100 amounting to ₹ 27.35 crore issued to IR by RVNL 'For consideration other than cash' has wrongly been reflected as cash investment of IR.



- Preference Shares numbering 40795100 amounting to ₹ 4,079.51 crore were allotted to IR by Konkan Railway Corporation Limited. These were allotted by converting the existing loan from IR into preference shares. The effect of this conversion has not been reflected.
  - The face value of equity shares owned by IR in RITES and Dedicated Freight Corridor Corporation of India Limited (DFCCIL) has been shown incorrectly as ₹ 100 each in place of ₹ 10 and ₹ 1000 respectively.
- Every year IR is taking Rolling Stock Assets on lease from IRFC. The leased Rolling stock forms part of the fleet of rolling stock in operation on the IR network. Leased assets are operated and maintained in the same manner as IR – owned assets. However the values of the assets taken on lease from IRFC have not been included in the balance sheet of IR. These assets amount to ₹ 69,795.43 crore.

In reply, the Ministry stated that a footnote regarding disclosure of rolling stock assets taken on lease from IRFC has been shown in Balance Sheet printed as part of the Appropriation Account Part-I-Review (This is a separate publication issued by the Railway Board). The reply is not tenable as this publication is an internal document of the IR and is not certified by audit.

#### **3.4.2 Responsibility and Accountability**

Transparency requires that financial information should be prepared in a way that facilitates policy analysis and promotes accountability. Budget transactions need to be able to be reviewed from the perspective of their economic impact, the form of appropriation, administrative control, and their purpose. A recording and classification system that meets these needs provides the foundation for the presentation of the budget, final accounts, and other fiscal reports. A classification by Administrative category is important for internal control purpose. It should allow clear tracking of responsibility for the collection and use of public funds.

IR has a well defined system of classification where the expenditure is classified under demands for grants. These are activity-wise categorized like General Superintendence and Services, Repairs and Maintenance, Operating Expenses, Staff Welfare and Miscellaneous Expenditure. However, the classification system does not allow administrative wise clear tracking of responsibility and accountability as expenditure under a grant is controlled by one or more administrative heads. For instance:-

- Grant no. 5 deals with Repairs and Maintenance of Locomotives. IR runs mainly diesel and electric locomotives. Thus repair and maintenance of diesel locomotives is controlled by Member (Mechanical) whereas repair



and maintenance of electric locomotives is controlled by Member (Electrical).

- Grant no. 8 deals with Operating Expenses – Rolling Stock and Equipment. This grant includes operating expenses relating to steam, diesel, and electric locomotives, electric multiple unit coaches and signaling and Telecommunications etc. Operating expenses relating to steam and diesel locomotives are controlled by Member (Mechanical). However operating expenses relating to EMU coaches and signaling and telecommunications are controlled by Member (Electrical).
- Similarly, Grant no. 10 deals with expenditure on fuel on diesel and electric traction. Thus this grant is again controlled by both Member (Mechanical) and Member (Electrical).

Thus it is not possible to centrally monitor expenditure incurred under various grants. This problem is further aggravated by the fact that re-appropriation is permitted from allocation under the control of one administrative head to another administrative head. As discussed in para above monitoring of expenditure is weak.

### **3.5 Assurance of Integrity**

The quality and integrity of fiscal data reported by the government is critical for claiming fiscal transparency. It is essential that there should be a mechanism in place that provides assurances to the legislature and the public on data integrity.

#### **3.5.1 Realism of Budget Data**

Budget forecast and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well defined policy commitments. The assumptions underlying trends need to be clearly explained. Poor budget preparation leads to problem in implementation due to of sudden claim arising on resources and need for large scale re-appropriations and frequent supplementary budget etc.

Forecasting by IR of their revenue and expenditure has not been realistic. Reliability of budget estimates has regularly been commented upon in the Reports of Comptroller and Auditor General of India Union Government (Railways)<sup>28</sup>. Due to variation in revenue receipts and expenditure, net surplus of IR was less by 62 per cent in 2008-09 and around 100 per cent in 2009-10

<sup>28</sup> CA No. 19 of 2008-09 (paragraph 1.2), CA-11 of 2009-10 (paragraph 1.2) and no. 33 of 2010-11 (paragraph 1.2).

as compared to the budget estimates of the respective year. Unrealistic budget estimations also led IR to seek number of supplementary provisions which too proved to be either inadequate or excessive.

### **3.5.2 Accounting Standards**

The annual budget and final accounts should indicate the accounting basis used in compilation and presentation of fiscal data. Transparency requires the annual budget and final accounts should indicate the accounting basis and standards used in compilation of accounts. Any change in revision in accounting methodology and practices should be disclosed together with the reasons for the changes and an indication of their impact on fiscal aggregates.

### **3.5.3 Follow up action on Audit Report**

A reference is invited to Chapter-3 of the Report of Comptroller and Auditor General of India, Union Government (Railways) - no. 33 of 2010-11 on Railways Finances. This Report highlighted the following :

- IR being a Departmental Undertaking does not disclose significant accounting policies that are being followed in preparation of financial statements like profit and loss accounts and balance sheets. This included accounting of Fixed Assets, Depreciation, Provisioning of liabilities for pension, Revenue Recognition etc. For instance Depreciation represents reduction in value of an asset on account of wear and tear. It is charged to the P&L account. In IR an adhoc sum is charged to the working expenditure towards contribution to the depreciation reserve fund. This appropriation was done on need-cum-availability basis instead of in a scientific manner taking into account the historical cost, expected useful life and expected residual value of the asset. This gave leverage to IR to manage its net revenue surplus at the desired level. Further, adhoc provisioning for depreciation did not give a fair view of the working results of IR.
- Further a cash flow statement which records the amount of cash/cash equivalent entering and leaving the organization was not being prepared.
- Financial statements normally include Schedules and Notes to the Balance-Sheet and Profit & loss account. IR did not prepare these to the major items of its assets, liabilities, revenue and expenditure except the statement of Block Assets.

No Action Taken Note on the above has yet been received.



### 3.5.4 Data Consistency and Reconciliation

Data of the fiscal reports should be internally consistent and reconciled with relevant data from other sources. Transparency requires final accounts should be fully reconciled with subsidiary records maintained by the organization. Maintenance of basic records is a systematic way of tracking and recording changes in debt and assets and can provide a mean of checking overall data reliability. During certification of accounts of IR for the year 2010-11, Audit observed the following deficiencies:

- Total value of Railways Assets (excluding only the value of assets created from revenue) under various categories, whether financed from capital, Depreciation Reserve Fund, Development Fund or Capital Fund is shown in Appendix VII of Explanatory Memorandum on Railway Budget. On the other hand the Block Account – forming an annexure to the Annual Appropriation Accounts for the Indian Railways indicate the total including the value of assets financed from the Development Fund and Revenue as also the improvement element of the cost of assets financed from the Depreciation Reserve Fund. However on test check a mismatch amounting to ₹ 1427 crore (approx.) under the value of Land has been noticed in these set of Accounts.
- A report on the balances under the 'Debt Heads' forms part of the Finance Accounts. This report depicts the year end balances under 'Small Savings, Provident Fund', 'Deposits and Advances', 'Loans and Advances' and 'Remittances Inter-Government Adjustment accounts'. These heads are also depicted in the Balance Sheet of IR which forms part of the Appropriation Accounts. Audit observed that the balances for the year ended 31 March, 2011 shown in these two accounts do not tally and therefore need reconciliation. A disclosure to this effect is also required to be made.

In response to Audit observation, IR stated that these differences would be reviewed. As Finance and Appropriation Account are the two main Accounts of the same organization, the differences in the two sets of accounts need to be recognized and reconciled.

- Audit observed that the principal component of Lease charges amounting to ₹ 2,793.38 crore was repaid to IRFC for leased assets during the year 2010-11 and was accordingly capitalized in the Block Account. However, instead of booking the entire expenditure to Rolling Stock Assets, it was bifurcated and booked to various Sub-heads namely Preliminary Expenses and Misc., Structural Engineering Works, Equipment Plant and Machinery, General Charges, Investment in Government Commercial Undertakings/Road Services etc. This resulted in the understatement of Capital Expenditure under Rolling Stock by ₹ 1,650.33 crore.



### 3.5.5 Internal Control System

Internal control system can be defined as a process by which an organization accomplishes specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical and intangible. At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations.

Audit observed that inadequacy and failure of internal control led to persistent irregularities in the accounts of IR. Some of these issues are discussed below:

- Ministry of Finance, (Budget Division), in May 2006, clarified that no expenditure can be incurred from the Consolidated Fund of India on a 'New Services'/'New Instrument of Service' without prior approval of Parliament through supplementary demands for grants.

Construction of New Lines in Indian Railways is an independent activity and is charged to plan-head "New Lines". It was, however, seen that Railways were frequently undertaking construction of New Lines works as 'Material Modification' to already on-going works of New Lines as well as material modification to Gauge Conversion or Doubling, which are entirely a different activity, instead of getting them sanctioned as "New Services" in the budget. Review of on-going works revealed that 40 sections of New Lines Works (including 26 works pertaining to Eastern Railway), ranging between 5 km to 281 km (a total length of 1321.40 km as detailed in Appendix-3.1) which should have been got sanctioned as 'New Service'/'New instrument of Service' were being executed as material modifications to on-going works of New Lines as well as Gauge Conversion or Doubling or New Lines works. Besides this, 11 sections of Gauge conversion works with total length of 412.50 km and 74 km of doubling works in two sections were also taken up as material modification to works already under execution.

IR failed to take approval of Parliament for new activity. This action of IR not only violates the procedure laid down for approval of new projects but also prevents their proper appraisal both economic and technical.

- Reimbursement of operating losses on Strategic lines- A reference is invited to Audit observation no. 3.6.2 (a) of Chapter 3 of C&AG of India's (Union Government) Report no. 33 of 2010-11 on Railways Finances wherein it was stated that Indian Railway has been claiming subsidy on five sections of Northeast Frontier Railway considering those as 'Strategic



Lines' without any notification. IR in response to audit observations had stated that necessary action was being taken to get the specific notification issued for these sections as strategic lines.

However during the audit of accounts of IR for the year 2010-11, it was again observed that the notification of these lines as strategic lines is still pending despite being pointed out by audit continuously for the last three years. Further, IR was still claiming "Reimbursement of losses on strategic lines" from Ministry of Finance considering these lines as 'strategic lines.'

IR in response to audit observation stated (March 2012) that the matter has been taken up with the concerned authorities and is expected to be resolved shortly.

- Subsidy claim on New Lines – Railway Convention Committee 1954 and subsequent Committees recommended that a moratorium should be granted in respect of the dividend payable on the capital invested on the New Lines during the period of construction and up to the end the fifth year of their opening for traffic. The dividend due on capital-at-charge has to be paid in full and exemption from dividend on this account is to be recorded as "Subsidy Received from General Revenues" under 'Miscellaneous Receipts' in the Accounts of the Railways. Thus, any unjustified deferring of dividend on New Lines results in unjustified claim and receipt of subsidy of the equivalent amount in the books of the Railways.

A reference is invited to Audit observation no. 3.6.2 (b) of Chapter 3 of C&AG of India's (Union Government) Report no. 33 of 2010-11 on Railway Finances where in the excess claim of subsidy amounting to ₹133.45 crore by four Zonal Railways (SWR, NCR, ECoR and WR) in respect of ten lines in the year 2009-10. These claims were contrary to the mandatory recommendations of Railway Convention Committee regarding subsidies on new lines.

IR in response to audit observations had stated that adjustment of subsidies would be carried out in the accounts of 2010-11. However during the audit of Finance Accounts of IR for the year 2010-11, it was observed that Zonal Railways did not comply with the assurance given during the previous year regarding reversal of excess subsidy. In fact they continued to claim subsidy on ineligible lines during the current year also. In response to audit observations South Western Railway and East Coast Railway stated that the adjustment of subsidy amounting to ₹ 614.01 crore in respect of six lines and one Road-over-Bridge pertaining to the period upto March 31, 2011 would be carried out in the year 2010-12.

- Audit observed that the IRFC (Volume-I) was needed to be updated/modified in a number of cases.
  - The Block Account is not being prepared in the format prescribed in IRFC (Volume-I). In reply, Ministry stated that the proforma of Block Account was revised in 1980. Since then the Block Account is being prepared in accepted form. The reply is not tenable as the revised proforma of Block Account has still not been revised/updated in provision of para 429 of IRFC (Volume-I) after the lapse of more than three decades.
  - City and Industrial Development Corporation of Maharashtra Limited (CIDCO) incurred an expenditure of ₹ 964.00 crore on Mankhurd-Belapur Railway Project upto 2010-11. The tripartite agreement entered into by IR with CIDCO and the state government of Maharashtra stated that these assets will form part of the assets of IR. Audit however observed that instead of opening a new head for accounting for creation of assets not financed directly through their own funds, this expenditure has been misclassified.

In reply the Ministry stated that the expenditure not incurred by Railways should not be reflected in the Block Account and the matter was being examined. The reply of the Ministry is not tenable as the accounting for the asset created out of funds contributed by CIDCO is in accordance with the clause 11.11 of Tripartite agreement and needs suitable amendment in codal provision.

### **3.6 Conclusion and Recommendations**

The FRBM Act, 2003 was passed to ensure transparency in budgeting. It was seen that IR was not following the FRBM Act and did not present any of the Statements of fiscal policy in Parliament as defined in the FRBM Act. It also failed to place a quarterly assessment of trend of receipts and expenditure before Parliament.

Part of the plan expenditure of IR is financed through extra-budgetary resources. This includes procurement of rolling stock through loan from IRFC. However the sources and uses of these funds is not clearly indicated in the budget documents.

It is seen that IR has made a number of implicit commitments to its PSUs. These commitments need to be disclosed as they have a significant impact on the liabilities of IR.

Audit observed that follow-up action on the announcements made in the Railway Minister's budget speech were weak. No proper monitoring system



appears to have been set in place, as seen from the gaps in the Outcome Budget. Further, the status of implementation of Railway Minister's budget announcements does not form part of the budgetary documents.

The accounting system followed by IR failed to provide an accurate assessment of arrear payments due. Further it is seen that the Codes and Manuals followed by IR needs to be updated. The classification system of IR did not allow administrative wise clear tracking of responsibility and accountability as use of resources in a grant is controlled by more than one administrative head leading to poor monitoring and control of expenditure.

Vide chapter 3 of Report of C&AG of India, Union Government (Railways) No. 33 of 2010-11, Audit had pointed out that IR failed to disclose significant accounting policies, while preparing financial Statements like Profit & Loss Account and Balance Sheet. No follow up action on this Audit Report has been taken.

**Recommendations:**

- *IR should ensure that the FRBM Act is implemented. This would include presenting the following statements along with the budget :-*
  - *Medium-Term fiscal Policy Statement indicating three-year rolling targets and policy regarding key fiscal indicators like revenue surplus i.e. balance between receipts and expenditure;*
  - *Fiscal Policy strategy Statement for the current year indicating the policies relating to the prices of services provided , investment strategy for achieving the targeted growth rate,*
  - *Macro-economic Framework Statement containing assessment of growth and revenue strategy and the amount of balances available under various Funds for maintaining /replacement of assets and achieving the targeted growth rate,*
  - *A mid term review of receipts and expenditure incurred needs to be placed in parliament,*
- *Supplementary budget should be presented in the same format as the original budget.*
- *Follow up action on Railway Minister's speech on the budget needs to be strengthened. Further, the status of implementation of Railway Minister's budget announcements should form part of the Budgetary Documents.*
- *The implicit commitments made by IR need to be disclosed in the budget as they have a significant impact on Railway finances.*

- *To track administrative wise responsibility and accountability, a statement of authorization and expenditure under the control of each of the administrative head should be made a part of the budget document.*
- *Complete information on funds raised through Extra Budgetary Resources needs to be disclosed so as to depict the actual capital expenditure incurred on creation of Railways' Assets.*
- *Follow up action on audit observations pointed out in Chapter-3 of Audit Report no. 33 of 2010-11 has not yet been received. This would require IR to adopt standard based financial reporting for improved public accountability. To ensure transparency in reporting and proper presentation of financial statements, IR should prepare a road map for transition towards a system of accrual based general purpose financial reporting.*



(B. B. PANDIT)

New Delhi

Deputy Comptroller and Auditor General

Dated 25 April 2012

Countersigned



(VINOD RAI)

New Delhi

Comptroller and Auditor General of India

Dated 26 April 2012



## 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 (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) &amp; Metro Railway, Kolkata<sup>28</sup></i>
<i>6-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; Diesel Loco Modernisation Works (DMW), Patiala</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>Book value of the capital assets of Railways</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' IR is required to pay dividend to the general revenues on the capital advanced by the GoI at a rate determined periodically by 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</i>	<i>Receipts of railways through its operations</i>

<sup>28</sup> Metro Railway, Kolkata has been declared as new Zonal Railway w.e.f. 29.12.2010



<i>Terms</i>	<i>Description</i>
<i>Receipts</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</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</i>



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<i>Terms</i>	<i>Description</i>
	<i>terms of NTKM) per thousand employees.</i>
<i>Capital Out put 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>

## Appendix-2.1- Appropriation Accounts 2010-11

(Reference Paragraph No.2.2)

(In units of ₹)

Number and name of the Grant/Appropriation	Original Grant/ Appropriation	Supplementary	Final Grant/ Appropriation	Actual Expenditure	Excess (+)/ Savings (-)
<b>1</b>	<b>Revenue – Railway Board</b>				
Voted	1700000000	90100000	1790100000	1788257764	-1842236
<b>2</b>	<b>Revenue – Miscellaneous Expenditure (General)</b>				
Voted	6000000000	1000000000	7000000000	6377972813	-622027187
<b>3</b>	<b>Revenue – Working Expenses – General Superintendence and Services</b>				
Charged	530000	1022000	1552000	3649842	2097842
Voted	42036855000	1485478000	43522333000	43574432897	52099897
<b>4</b>	<b>Revenue – Working Expenses – Repairs and Maintenance of Permanent Way and Works</b>				
Charged	4284000	8873000	13157000	3146543	-10010457
Voted	71565099000	2222966000	73788065000	73865617784	77552784
<b>5</b>	<b>Revenue – Working Expenses – Repairs and Maintenance of Motive Power</b>				
Voted	33485353000	0	33485353000	34236013832	750660832
<b>6</b>	<b>Revenue - Working Expenses – Repairs and Maintenance of Carriages and Wagons</b>				
Charged	60,00,00	369000	969000	1425116	456116
Voted	75252159000	532839000	75784998000	77995875978	2210877978
<b>7</b>	<b>Revenue - Working Expenses – Repairs and Maintenance of Plant and Equipment</b>				
Charged	315000	0	315000	464045	149045
Voted	40630453000	640713000	41271166000	41669143327	397977327
<b>8</b>	<b>Revenue - Working Expenses – Operating Expenses – Rolling Stock and Equipment</b>				
Charged	0	821000	821000	872277	51277
Voted	56045052000	3624255000	59669307000	61568196127	1898889127
<b>9</b>	<b>Revenue - Working Expenses – Operating Expenses – Traffic</b>				
Charged	2570000	77000	2647000	1644422	-1002578
Voted	115126693000	5772186000	120898879000	120792411128	-106467872
<b>10</b>	<b>Revenue - Working Expenses – Operating Expenses - Fuel</b>				
Charged	0	33912000	33912000	9500000	-24412000
Voted	157781215000	5948364000	163729579000	167710434127	3980855127
<b>11</b>	<b>Revenue – Working Expenses – Staff Welfare and Amenities</b>				
Charged	0	1884000	1884000	973923	-910077
Voted	33155487000	1854635000	35010122000	35549566110	539444110
<b>12</b>	<b>Revenue - Working Expenses – Miscellaneous Working Expenses</b>				
Charged	1182127000	1737333000	2919460000	3012086750	92626750
Voted	30932451000	2608119000	33540570000	40024956934	6484386934



13	<i>Revenue - Working Expenses – Provident Fund, Pension and Other Retirement Benefits</i>					
	<i>Charged</i>	6450000	0	6450000	5365136	-1084864
	<i>Voted</i>	144174957000	5312413000	149487370000	163527121918	14039751918
14	<i>Revenue - Appropriation to Funds – Depreciation Reserve Fund, Development Fund, Pension Fund, Capital Fund</i>					
	<i>Voted</i>	252830900000	0	252830900000	227498947757	-25331952243
15	<i>Dividend to General Revenues, Repayment of Loans taken from General Revenues and Amortisation of Over-Capitalisation</i>					
	<i>Voted</i>	66087600000	0	66087600000	49412507813	-16672092187
16	<i>Assets – Acquisition, Construction and Replacement - Open Line Works – Revenue</i>					
	<i>Charged</i>	2,00,000		2,00,000	0	200000
	<i>Voted</i>	598000000		598000000	358433292	-239566708
	<i>Assets – Acquisition, Construction and Replacement - Other Expenditure – Capital</i>					
	<i>Charged</i>	465000000	800000000	1265000000	1116836405	-148163595
	<i>Voted</i>	461369789000	23911012000	485280801000	477824954107	-7455846893
	<i>Assets – Acquisition, Construction and Replacement – Other Expenditure – Railway Safety Fund</i>					
	<i>Charged</i>	16000000	0	16000000	72571	-15927429
	<i>Voted</i>	16984000000	10000	16984010000	11014361203	-5969648797
	<i>Assets–Acquisition, Construction and Replacement–Other Expenditure–Special Railway Safety Fund</i>					
	<i>Charged</i>	0	0	0	0	0
	<i>Voted</i>	0	0	0	0	0
	<i>Assets – Acquisition, Construction and Replacement - Other Expenditure – Railway Funds</i>					
	<i>Charged</i>	80200000	0	80200000	22695567	-57504433
	<i>Voted</i>	154651800000	101000	154651901000	146089964782	-8561936218
	<i>Grand Total</i>					
	<i>Charged</i>	1760076000	2584291000	4344367000	4178732597	-165634403
	<i>Voted</i>	1760404863000	55003191000	1815408054000	1780879169694	-34528884306
	<i>Grand Total</i>	17621649369000	57587482000	1819752421000	165202,17,39,909	-8165.64.26.091



**Appendix 2.2 - Grant Wise- Railway Wise summary of Grant Account**  
(Grant no.3 to 13)

(Reference Para 2.5)

(₹ in thousands)

Grant No.	Rlys	Original	supple	Residual	Final	Actual Exp.	Variation	Net Variation
					(3+4+5)		(7-6)	(7-4-3)
1	2	3	4	5	6	7	8	9
3	CR	3253000	126800	132700	3512500	3600622	88122	220822
3	ER	4869900	70600	(295500)	4645000	4571770	(73230)	(368730)
3	EC	2318100	0	(78100)	2240000	2263860	23860	(54240)
3	ECO	1274900	0	(36510)	1238390	1254755	16365	(20145)
3	NR	4020300	452732	218853	4691885	4675058	(16827)	202026
3	NC	2049235	0	30765	2080000	1935947	(144053)	(113288)
3	N.E.	2207200	70900	40900	2319000	2312007	(6993)	33907
3	N.F.	2355900	139200	(80100)	2415000	2392825	(22175)	(102275)
3	NW	2230700	0	(183700)	2047000	2064878	17878	(165822)
3	SR	3774100	30324	(39666)	3764758	3793671	28913	(10753)
3	S.C.	3078070	66430	59200	3203700	3231992	28292	87492
3	S.E.	3152400	247425	239700	3639525	3622935	(16590)	223110
3	SEC	1351800	0	(117174)	1234626	1291638	57012	(60162)
3	SW	1193800	67400	(27700)	1233500	1225516	(7984)	(35684)
3	WR	3382750	119825	87000	3589575	3615891	26316	113316
3	WC	1408700	81142	49332	1539174	1591642	52468	101800
3	METRO	116000	12700	0	128700	129424	724	724
4	CR	6133574	20800	(246595)	5907779	6134469	226690	(19905)
4	ER	3961400	86300	(142700)	3905000	3818821	(86179)	(228879)
4	EC	4229860	0	(209860)	4020000	3978794	(41206)	(251066)
4	ECO	3080328	0	(14187)	3066141	3155634	89493	75306
4	NR	7752900	1144497	158603	9056000	8736432	(319568)	(160965)
4	NC	4982490	0	(235300)	4747190	4718063	(29127)	(264427)
4	N.E.	2509277	26700	156470	2692447	2684349	(8098)	148372
4	N.F.	4649300	319800	133100	5102200	5133602	31402	164502
4	NW	3483670	0	(113446)	3370224	3314170	(56054)	(169500)
4	SR	4955700	0	(14233)	4941467	4943872	2405	(11828)
4	S.C.	7761839	157194	101475	8020508	7891762	(128746)	(27271)
4	S.E.	3749121	137001	118200	4004322	4047380	43058	161258
4	SEC	2019400	134052	138400	2291852	2348998	57146	195546
4	SW	2055750	75472	3428	2134650	2147297	12647	16075
4	WR	6173495	0	164565	6338060	6522998	184938	349503
4	WC	3849295	113050	10150	3972495	4073632	101137	111287



4	METRO	217700	8100	(8070)	217730	215345	(2385)	(10455)
5	CR	2831400	0	23714	2855114	2928988	73874	97588
5	ER	2883300	0	(22900)	2860400	2989674	129274	106374
5	EC	2178100	0	(467088)	1711012	1685259	(25753)	(492841)
5	ECO	1438488	0	(221187)	1217301	1272344	55043	(166144)
5	NR	3853254	0	474400	4327654	4293229	(34425)	439975
5	NC	1446742	0	84080	1530822	1657598	126776	210856
5	N.E.	1021800	0	(21800)	1000000	1031962	31962	10162
5	N.F.	1055800	0	124800	1180600	1367189	186589	311389
5	NW	1050800	0	(85196)	965604	997981	32377	(52819)
5	SR	2751200	0	(279800)	2471400	2536449	65049	(214751)
5	S.C.	3266597	0	(54362)	3212235	3355482	143247	88885
5	S.E.	2232800	0	2200	2235000	2346027	111027	113227
5	SEC	1208600	0	(233100)	975500	877726	(97774)	(330874)
5	SW	1336748	0	(159002)	1177746	1321223	143477	(15525)
5	WR	2146724	0	250175	2396899	2575059	178160	428335
5	WC	2783000	0	(82100)	2700900	2999824	298924	216824
5	METRO	0	0	0	0	0	0	0
6	CR	7185600	117992	(42388)	7261204	7247681	(13523)	(55911)
6	ER	9469700	72600	(480500)	9061800	9187905	126105	(354395)
6	EC	3332425	105277	1013098	4450800	4794843	344043	1357141
6	ECO	2200779	0	(40658)	2160121	2355289	195168	154510
6	NR	9433539	0	215530	9649069	9891925	242856	458386
6	NC	1496216	43852	79500	1619568	1674909	55341	134841
6	N.E.	2882863	0	(341800)	2541063	2570429	29366	(312434)
6	N.F.	3427300	81300	1400	3510000	3754469	244469	245869
6	NW	2573851	0	(231116)	2342735	2398043	55308	(175808)
6	SR	7123800	0	(299600)	6824200	7049223	225023	(74577)
6	S.C.	5921696	0	(462499)	5459197	5556751	97554	(364945)
6	S.E.	6394900	0	(295251)	6099649	6195121	95472	(199779)
6	SEC	1690365	8440	529400	2228205	2346390	118185	647585
6	SW	2141015	1661	317334	2460010	2623713	163703	481037
6	WR	8043900	38900	(34500)	8048300	8111239	62939	28439
6	WC	1688610	42217	90000	1820827	1991892	171065	261065
6	METRO	245600	20600	(17950)	248250	246054	(2196)	(20146)
7	CR	3879490	21850	(36128)	3865212	3935733	70521	34393
7	ER	3428800	37862	(34486)	3432176	3425285	(6891)	(41377)
7	EC	2698215	193725	299675	3191615	3155351	(36264)	263411
7	ECO	1583747	0	(14900)	1568847	1590542	21695	6795
7	NR	4509850	91200	16727	4617777	4835316	217539	234266
7	NC	2729147	37296	97000	2863443	2748883	(114560)	(17560)
7	N.E.	1454658	60228	29500	1544386	1545950	1564	31064



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7	N.F.	1916900	34500	(199400)	1752000	1891322	139322	(60078)
7	NW	1530025	0	(56475)	1473550	1450078	(23472)	(79947)
7	SR	3068200	0	(185700)	2882500	2908092	25592	(160108)
7	S.C.	3154410	41129	(44612)	3150927	3200699	49772	5160
7	S.E.	2297300	32300	93400	2423000	2419748	(3252)	90148
7	SEC	1310289	0	(16950)	1293339	1330542	37203	20253
7	SW	731075	0	39354	770429	800658	30229	69583
7	WR	3917160	25185	8755	3951100	3896520	(54580)	(45825)
7	WC	2108887	27438	42200	2178525	2228695	50170	92370
7	METRO	312300	38000	(37960)	312340	305729	(6611)	(44571)
8	CR	5278041	815088	(32587)	6060542	6322534	261992	229405
8	ER	5161963	360221	(153900)	5368284	5396411	28127	(125773)
8	EC	4106384	223766	133400	4463550	4670151	206601	340001
8	ECO	2132771	109858	136921	2379550	2493654	114104	251025
8	NR	6941683	66075	504468	7512226	7631852	119626	624094
8	NC	3087752	127165	70800	3285717	3512062	226345	297145
8	N.E.	1877183	100000	(139093)	1838090	1987025	148935	9842
8	N.F.	1987600	229100	0	2216700	2163971	(52729)	(52729)
8	NW	2150536	66233	(80489)	2136280	2143951	7671	(72818)
8	SR	4259800	50000	(31519)	4278281	4171825	(106456)	(137975)
8	S.C.	3989758	280588	(230149)	4040197	4046655	6458	(223691)
8	S.E.	3544500	236100	167900	3948500	4263334	314834	482734
8	SEC	2392450	80764	126684	2599898	2746120	146222	272906
8	SW	1440660	21887	62735	1525282	1685359	160077	222812
8	WR	4617600	702610	(592922)	4727288	4924968	197680	(395242)
8	WC	2736971	90000	49551	2876522	2999957	123435	172986
8	METRO	339400	64800	8200	412400	408367	(4033)	4167
9	CR	9227440	1029200	1146600	11403240	10884537	(518703)	627897
9	ER	6066100	84400	171171	6321671	6086928	(234743)	(63572)
9	EC	10177400	825500	418190	11421090	11367707	(53383)	364807
9	ECO	5216975	683714	527090	6427779	6702473	274694	801784
9	NR	14401893	1345500	(89961)	15657432	15827623	170191	80230
9	NC	9047342	0	(166943)	8880399	9383507	503108	336165
9	N.E.	3739315	68685	95360	3903360	3894966	(8394)	86966
9	N.F.	4504450	0	(586660)	3917790	3816672	(101118)	(687778)
9	NW	3494146	912719	509566	4916431	5027528	111097	620663
9	SR	8741500	0	(313255)	8428245	8292242	(136003)	(449258)
9	S.C.	9454500	0	(369615)	9084885	8767065	(317820)	(687435)
9	S.E.	3737840	0	(73761)	3664079	3867257	203178	129417
9	SEC	8565756	0	(928144)	7637612	8159753	522141	(406003)
9	SW	4123636	0	(450772)	3672864	3398594	(274270)	(725042)
9	WR	10098700	284300	(256253)	10126747	10112689	(14058)	(270311)



9	WC	4322400	499168	367387	5188955	4959064	(229891)	137496
9	METRO	207300	39000	0	246300	243806	(2494)	(2494)
10	CR	14399600	1153200	400911	15953711	16189105	235394	636305
10	ER	7660869	522200	652349	8835418	8625764	(209654)	442695
10	EC	12388900	0	(2188900)	10200000	10354998	154998	(2033902)
10	ECO	8578558	304564	205900	9089022	9493042	404020	609920
10	NR	14020840	1842960	276200	16140000	17508258	1368258	1644458
10	NC	11313844	0	(358644)	10955200	10623302	(331898)	(690542)
10	N.E.	4758713	97498	33789	4890000	5211845	321845	355634
10	N.F.	5307001	519823	271801	6098625	6345607	246982	518783
10	NW	6875100	0	159500	7034600	7064680	30080	189580
10	SR	9343300	563500	203527	10110327	10293291	182964	386491
10	S.C.	16582490	426910	111687	17121087	17508586	387499	499186
10	S.E.	6946800	0	255700	7202500	7592954	390454	646154
10	SEC	5413400	143200	(1600)	5555000	5834759	279759	278159
10	SW	6573900	349509	338480	7261889	7803079	541190	879670
10	WR	16098100	0	(195900)	15902200	16055270	153070	(42830)
10	WC	11364800	0	(164800)	11200000	11024636	(175364)	(340164)
10	METRO	155000	25000	0	180000	181258	1258	1258
11	CR	3014500	192060	3440	3210000	3270343	60343	63783
11	ER	2690700	182600	(6688)	2866612	2767647	(98965)	(105653)
11	EC	1371500	83400	(12812)	1442088	1358131	(83957)	(96769)
11	ECO	1162415	116400	(28600)	1250215	1308230	58015	29415
11	NR	3520600	387900	166724	4075224	4196819	121595	288319
11	NC	1211600	142100	40000	1393700	1356652	(37048)	2952
11	N.E.	1280903	190200	31030	1502133	1545126	42993	74023
11	N.F.	2611200	66300	(167000)	2510500	2678532	168032	1032
11	NW	1283876	20424	(5028)	1299272	1274996	(24276)	(29304)
11	SR	2905100	0	7949	2913049	2992817	79768	87717
11	S.C.	3555600	72850	(80000)	3548450	3417731	(130719)	(210719)
11	S.E.	2210000	148300	60000	2418300	2526559	108259	168259
11	SEC	1057200	13400	20640	1091240	1124656	33416	54056
11	SW	1010700	37203	(48591)	999312	1013911	14599	(33992)
11	WR	3019700	107275	(27157)	3099818	3192766	92948	65791
11	WC	1193793	90723	40277	1324793	1460153	135360	175637
11	METRO	56100	3500	5816	65416	64497	(919)	4897
12	CR	1925700	305278	54594	2285572	2056391	(229181)	(174587)
12	ER	3632300	1000	158497	3791797	3938817	147020	305517
12	EC	2590220	0	(456145)	2134075	1932744	(201331)	(657476)
12	ECO	1263735	0	(94570)	1169165	7692452	6523287	6428717
12	NR	4760683	355699	387690	5504072	5737201	233129	620819
12	NC	1678000	0	12000	1690000	1406488	(283512)	(271512)



Appendix

12	N.E.	1575933	625950	190000	2391883	1888139	(503744)	(313744)
12	N.F.	1476000	310597	(14403)	1772194	1802502	30308	15905
12	NW	1152519	0	(163397)	989122	882256	(106866)	(270263)
12	SR	2211782	0	(428732)	1783050	2291531	508481	79749
12	S.C.	2046047	582395	168540	2796982	2885110	88128	256668
12	S.E.	2270747	205352	(58613)	2417486	2282597	(134889)	(193502)
12	SEC	561550	83613	30000	675163	771463	96300	126300
12	SW	689938	0	94512	784450	1065303	280853	375365
12	WR	2231218	98772	123652	2453642	2194037	(259605)	(135953)
12	WC	772279	28063	0	800342	1108005	307663	307663
12	METRO	93800	11400	(3625)	101575	89918	(11657)	(15282)
13	CR	12091010	1494681	2254099	15839790	16953902	1114112	3368211
13	ER	17319310	660550	1006367	18986227	21999516	3013289	4019656
13	EC	7734600	0	(1599800)	6134800	6543740	408940	(1190860)
13	ECO	3291200	359800	546233	4197233	4079505	(117728)	428505
13	NR	10418362	1187300	2047710	13653372	13950895	297523	2345233
13	NC	22357340	0	(3450198)	18907142	19806140	898998	(2551200)
13	N.E.	3143980	0	(67351)	3076629	3233756	157127	89776
13	N.F.	3809520	0	(359460)	3450060	5583477	2133417	1773957
13	NW	9534200	0	(1981200)	7553000	8290893	737893	(1243307)
13	SR	13113730	344999	995848	14454577	16435048	1980471	2976319
13	S.C.	12099410	171700	209316	12480426	13705677	1225251	1434567
13	S.E.	5802650	560400	756610	7119660	7130397	10737	767347
13	SEC	3325950	50983	157641	3534574	3726651	192077	349718
13	SW	4294544	0	(335900)	3958644	4520671	562027	226127
13	WR	9135151	0	(787879)	8347272	9449134	1101862	313983
13	WC	5404400	472800	521490	6398690	6733984	335294	856784
13	METRO	81100	9200	10000	100300	106422	6122	16122
13	CLW	295000	0	100000	395000	395436	436	100436
13	DLW	229200	0	(14967)	214233	196721	(17512)	(32479)
13	ICF	500000	0	(61489)	438511	439631	1120	(60369)
13	RWF	22900	0	24392	47292	47262	(30)	24362
13	DMW	24200	0	20578	44778	44238	(540)	20038
13	RCF	107500	0	2300	109800	108186	(1614)	686
13	IRISET	28600	0	4783	33383	33822	439	5222
13	VDR	11100	0	877	11977	12019	42	919

Note: Figures in red in bracket denote surrender (column no.5) /saving (column no. 8&9).



**Appendix 2.3- Cases of Misclassification of Expenditure**  
**(Reference Paragraph 2.8)**

S.No.	Particulars	₹ in crore
<b>Expenditure Misclassified to Works Grant no.16 and Miscellaneous Deposit instead of Revenue Grants</b>		
1	Maintenance charges of OFC equipments etc. booked to Grants No.16SF instead of Grant No. 7	1.12
2	Payment of trade tax of land to be charged to Grant No. 12 booked to Grant No. 16DRF	7.75
3	Cost of Loading and stacking of P.Way material to be charged to Grant No. 4 booked to Grant No. 16 DRF	0.70
4	Cost of Signalling material booked to Grant No. 16 DF instead of Grant No. 7	0.19
5	Repair and Colour wash of Station building booked to Grant No. 16SF instead of Grant No. 4	0.85
6	Cost of fuel issued to locos booked to Grant No. 16 (Cap) instead of Grant No. 10	4.05
7	Expenditure incurred on urgent special work and cost of ballast for openline booked to Grant No. 16(Cap) instead of Grant No.4	0.54
8	Open line Engineering works booked under Grant No. 16(Cap) instead of Grant No. 4	0.13
9	Cost of hospital equipment booked to Gauge Conversion Project Grant No. 16(Cap) instead of Grant No. 11	0.09
10	Revenue expenditure booked to Grant No.16 DRF instead of Grant No.6	0.11
<b>Total</b>		<b>15.53</b>
<b>Expenditure Misclassified to Revenue Grants instead of Works Grant no.16</b>		
1	Procurement of machinery booked to Grant No.6 instead of Grant No.16 (Cap.)	0.10
2	Sports facilities for Railwaymen booked to Grant No.8 instead of Grant No.16(DF)	5.08
3	Cost of Information kiosko booked to Grant No.7 instead of Grant No.16(DF)	0.52
4	Procurement of ballast for track renewal work, Cost of PRC Sleeper, Cost of P.Way materials and Passenger Amenities works booked to Grant No. 4 instead of Grant No.16(DRF)	1.96
5	Cost of Diesel Loco booked to Grant No.5 instead of Grant No.16(DRF)	1.64
6	Pay and Allowances to be charged to Grant No.16(Cap.) booked to Grant No.3	0.71
<b>Total</b>		<b>10.01</b>

**Appendix**

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<b>Expenditure Misclassified within different sources of Work Grant.</b>		
1	Work like Provision of lifting barrier and heavy repairs to road surface etc at unmanned level Xings booked to Grant No. 16 DRF instead of Grant No. 16 RSF	0.21
2	Passenger Amenities Works booked to Grant No.16- DRF-and Grant No.16 – Capital instead of Grant No. 16- DF.	0.62
3	Cost of supply of PVC wire and Cost of provision of loops and ETW booked to Grant No.16- Capital instead of Grant No. 16-DF	0.28
4	KFW work booked to Grant No. 16- Capital instead of Grant No. 16- DRF	0.19
5	Amount of GC work debited to Safety Fund instead of Capital.	0.19
6	Rewiring of staff quarters and replacement of corroded pipe line booked to Grant no 16-DF instead of Grant No. 16- DRF	0.66
7	Replacement of staff quarters booked to Capital instead of DRF	0.33
8	Construction of Staff quarters booked to DRF instead of Capital	0.12
9	Irregular booking of Expenditure under Safety fund instead of PH 5100 Capital	0.37
10	Replacement of parcel lifts booked to DF instead of DRF	0.20
11	Expenditure incurred for subway work, debited to Capital instead of DF	0.68
	<b>Total</b>	<b>3.85</b>



**Appendix 3.1-Construction of New Lines/Gauge Conversion/Doubling work  
taken as Material Modification to On-Going Works  
(Reference Para 3.5.5)**

S.No.	Rlys	Item No. of Pink Book	Name of Section taken as Material Modification	Category	Length in Km	Taken as Material Modification to on-going works
1	ER	1 of 2011-12	Kakdwip-Budakhaali	New Line	5.00	Lakshmikantpur-Namkhanna-Chandranagar New Line
2	ER	1 of 2011-12	Chandranagar-Bakkhali	New Line	17.20	Lakshmikantpur-Namkhanna-Chandranagar New Line
3	ER	4 of 2011-12	Irphala-Ghatal	New Line	11.20	Tarakeshwar-Bishanpur New Line construction
4	ER	4 of 2011-12	Arambagh-Champadanga	New Line	23.30	Tarakeshwar-Bishanpur New Line construction
5	ER	12 of 2011-12	Negun-Mangalkot	New Line	8.60	Bardhaman-Katwa Gauge Conversion
6	ER	12 of 2011-12	Katwa (Dainhat)-Mateswar	New Line	34.40	Bardhaman-Katwa Gauge Conversion
7	ER	12 of 2011-12	Manteswar-Memari	New Line	35.60	Bardhaman-Katwa Gauge Conversion
8	ER	12 of 2011-12	Katwa-Bazarsau	Doubling	30.59	Bardhaman-Katwa Gauge Conversion
9	ER	13 of 2011-12	Pujali-Uluberia (Birshivpur)	New Line	10.25	New Alipore-Akra & Budge budge-Pujali Doubling Project
10	ER	13 of 2011-12	Pujali-Baharhat	New Line	9.75	New Alipore-Akra & Budge budge-Pujali Doubling Project
11	ER	16 of 2011-12	Kalikapur-Minakhan via Ghatakpur	New Line	38.00	Sonarpur-Canning Doubling
12	ER	17 of 2011-12	Krishnanagar-Chapra	New Line	19.10	Krishnanagar-Kalinarayanpur doubling with Krishnanagar-Shantipur-Nabadwipghat Gauge Conversion and Krishnanagar-Charatata.
13	ER	17 of 2011-12	Nabadwipghat-Nabadwipdham with extension to BB loop	New Line	9.58	Krishnanagar-Kalinarayanpur doubling with Krishnanagar-Shantipur-Nabadwipghat Gauge Conversion and Krishnanagar-Charatata.
14	ER	17 of 2011-12	Naihati-Ranaghat 3rd line	New Line	35.54	Krishnanagar-Kalinarayanpur doubling with Krishnanagar-Shantipur-Nabadwipghat Gauge Conversion and Krishnanagar-Charatata.
15	ER	22 of 2011-12	Bongaon-Poramaheshtala	New Line	20.00	Chandpara-Bongaon with extension upto Chandabazar doubling



16	ER	22 of 2011-12	Chandabazar-Bagdah	New Line	13.86	Chandpara-Bongaon with extension upto Chandabazar doubling
17	ER	24 of 2011-12	Barabani-Churulia	New Line	9.00	Pandabeswar-Chinpai and Irka-Churulia-Gaurandi Doubling
18	ER	27 of 2010-11	Bhagankhali-Basanti	New Line	14.30	Ghutiari Sharif-Canning Doubling Project with extension upto Bangankhali
19	ER	27 of 2010-11	Basanti-Jharkhali	New Line	23.00	Ghutiari Sharif-Canning Doubling Project with extension upto Bangankhali
20	ER	28 of 2011-12	Joynagar-Durgapur	New Line	32.00	Dakshin Barasat-Lakshmikantapur Doubling
21	ER	29 of 2011-12	Sangrampur-Krishnachandrapur	New Line	25.00	Magrahat-Diamond harbour Doubling
22	ER	29 of 2011-12	Diamond-Harbour (Gurudasnagar-Baharahat)	New Line	21.00	Magrahat-Diamond harbour Doubling
23	ER	34 of 2011-12	Ranaghat (Aranghata)-Duttapulia	New Line	8.17	Kalinarayanpur-Shantipur Doubling Project
24	ER	37 of 2011-12	Bira-Chakla	New Line	11.50	Sondalia-Champapukur Doubling
25	ER	47 of 2011-12	Baruipara-Furfura	New Line	12.30	Dankuni-Chandanpur 4th line as 1st phase of Dankuni-Saktigarh 4th line
26	ER	5 of 2011-12	Rampurhat-Murara 3 <sup>rd</sup> Line	New Line	29.48	Rampurhat-Mandarhill via Dumka New Line
27	ER	35 of 2011-12	Ahmedpur-Katwa	New Line	51.92	Katwa-Patuli Doubling
28	SER	15 of 2011-12	Panskura-Ghatal	New Line	32.80	Panskura-Kharagpur (3rd Lines)
29	SER	4 of 2011-12	Digha to Egra	New Line	31.00	Dighe-Jaleswar New Line
30	SER	1 of 2011-12	Janghipara-Furfura Sharif	New Line	12.30	Howrah-Amta New Line
31	SER	4 of 2011-12	Kantheni-Egra	New Line	26.20	Tamluk-Digha New Line
32	SER	8 of 2011-12	Mukut Monipur-Uparsol	New Line	26.70	Bankura-Damodar Vally with BowaiChandi-Khana, Rainagar-Chinchai, Bankura-Mukut Monipur Gauge Conversion
33	SER	8 of 2011-12	Bankura (Kalabati)-Purulia via Hura	New Line	65.00	Bankura-Damodar Vally with BowaiChandi-Khana, Rainagar-Chinchai, Bankura-Mukut Monipur Gauge Conversion
34	NR	21 of 2011-12	Rae Bareilly-Akbarganj	New Line	46.90	Utretia-Zafarabad Doubling
35	NR	21 of 2011-12	Sultanpur-Amethi	New Line	29.22	Utretia-Zafarabad Doubling
36	NER	3 of 2011-12	Masrakh-Rewa Ghat	New Line	30.00	Maharajganj-Masrakh New Line
37	NER	8 of 2011-12	Bareilly-Lalquan	Gauge Conversion	83.00	Kanpur-Kashganj-Mathura and Kashganj-Bareilly Gauge Conversion
38	NEFR	1 of 2011-12	Raiganj-Itahar	New Line	21.80	Eklakhi-Balurghat, Gazol-Itahar New Line



39	NEF R	21 of 2011-12	Baraigram-Dullabchera with bypass at Karimganj	Gauge Conversion	29.40	Lumding-Silchar including Migrendisa-Dittockchera, extension from Badarpur-Bairagram- Gauge Conversion
40	NEF R	21 of 2011-12	Karimganj-Maishashan	Gauge Conversion	10.30	Lumding-Silchar including Migrendisa-Dittockchera, extension from Badarpur-Bairagram- Gauge Conversion
41	NEF R	22 of 2011-12	Raiganj-Dalkhola	Gauge Conversion	43.43	Katihar-Jogbani with extension upto Radhikapur, Katihar-Tejnarayanpur- Gauge Conversion
42	NEF R	24 of 2011-12	Chalsa-Naxalbari	Gauge Conversion	16.00	New Jalpaiguri-Siliguri-New Bongaigaon line along with branch line- Gauge Conversion
43	SR	2 of 2011-12	Salem- Mettur Dam	Doubling	43.43	Karur-Salem- New line
44	SR	34 of 2011-12	Tambaram-Chengalpattu-3rd line	Gauge Conversion	30.00	Chengalpattu-Villupuram- Doubling
45	SCR	12 of 2011-12	Mallacheruvu-Janapahar	New Line	24.00	Jaggayyapet-Mallacheruvu- New Line
46	WR	10 of 2011-12	Shapur- saradiya	Gauge Conversion	46.00	Rajkot- Veraval, Wansjalia-Jetalsar Gauge Conversion
47	WR	10 of 2011-12	Veraval-Somnath	New Line	281.00	Rajkot- Veraval, Wansjalia-Jetalsar Gauge Conversion
48	WR	10 of 2011-12	Somnath-Kodinar	New Line	36.91	Rajkot- Veraval, Wansjalia-Jetalsar Gauge Conversion
49	WR	12 of 2011-12	Mehsana-Taranga Hill	Gauge Conversion	57.40	Bhildi-Viramgam Gauge Conversion
50	ECR	27 of 2011-12	Daniawan to Biharsharif, Biharsharif to Barbigha, Barbigha to Sheikhpura	New Line	128.50	Fatuah- Islampur - Restoration of Dismantled Line
51	NWR	-	Malvi -Nathdwara	Gauge Conversion	16.00	Ajmer-Chittaurgarh-Udaipur Gauge Conversion
52	NWR	6 of 2011-12	Udiapur-Umra	Gauge Conversion	11.00	Ajmer-Chittaurgarh-Udaipur Gauge Conversion
53	NWR	8 of 2011-12	Sadualpur-Hissar	Gauge Conversion	70.00	Rewari-Sadualpur Gauge Conversion

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