

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

**New Delhi,
21 December, 2022**

**CAG's AUDIT REPORT ON RAILWAYS FINANCES PRESENTED IN
PARLIAMENT**

Audit Report No. 23 of 2022 – 'Union Government (Railways) – Railways Finances' was laid on the table of both Houses of Parliament here today.

The Report contains four Chapters. Chapter 1 focuses on financial performance of Indian Railways with reference to the previous year, as well as the overall trends. Chapter 2 contains an overview of the financial performance of the Railway Public Sector Undertakings (PSUs). Chapter 3 contains audit observations on processing, authorization and disbursement of pension besides assessing the efficiency in existing internal control mechanism. Chapter 4 contains audit observations on the status of implementation of Accounting Reforms Project (ARP) in Indian Railways and the status of developing an IT application of ARP.

Chapter 1: State of Finances

During 2020-21, Indian Railways generated total receipts of ₹1,40,783.55 crore against Budget Estimates (BE) of ₹ 2,25,913 crore. The Railways could not achieve revised estimate target of ₹ 1,46,609 crore. The total receipts decreased by 19.41 *per cent* during 2020-21 as compared to the previous year mainly due to decline in Passenger Earnings and Other Coaching Earnings on account of shutdown due to Covid-19 pandemic.

The loss on operation of passenger and other coaching services had increased as compared to previous year. The entire profit from freight traffic was utilized to compensate the loss on operation of passenger and other coaching services. The loss of ₹ 54,917 crore in passenger operations was left uncovered during 2020-21.

The share of Extra Budgetary Resources in capital expenditure had increased by 26 per cent. Inadequate generation of internal resources had resulted in greater dependence on GBS and EBR.

There was heavy dependence on transportation of coal which constituted around 43 per cent of the total freight earnings during 2020-21. Any shift in bulk commodities transport pattern could affect the freight earnings significantly. Net surplus was ₹ 2,547.48 crore in 2020-21, as compared to ₹ 1,589.62 crore in 2019-20. Operating Ratio (OR) represents the ratio of working expenses to traffic earnings. A higher ratio indicates poorer ability to generate surplus. As compared to the OR of 98.36 per cent during 2019-20, there was improvement in 2020-21 as the Railways could achieve an OR of 97.45 per cent. This meant that railways spent ₹ 97.45 to earn ₹ 100 in 2020-21. However, appropriation of ₹ 79,398 crore to Pension Fund from 'special loan' provided in Union Budget for 'COVID related resource gap in 2020-21' was not considered for the arriving at the Net Surplus and OR.

Chapter 2: Financial Performance of Railways PSUs

The amount of investment in equity and loans in Railway PSUs as at the end of March 2021 was ₹ 4,15,992 crore. The Government of India contributed ₹ 43,645 crore (83.67 per cent) in the paid up share capital of Railway Commercial Undertakings. The remaining paid-up share capital was contributed by Financial Institutions (6.18 per cent), Central Government Companies (5.73 per cent), State Government / State Government companies (4.42 per cent). The overall Profit had increased from ₹ 6,141 crore in 2018-19 to ₹ 7,067 crore in 2020-21.

During 2020-21, 27 Railway Commercial Undertakings had earned profit (₹ 7,627 crore) out of which only 10 Railway Commercial Undertakings had declared dividend (₹ 2,799.47 crore). In comparison, 31 Railway Commercial Undertakings had earned a profit of ₹ 7,061.07 crore during 2019-20 out of which 11 Railway Commercial Undertakings had declared dividend (₹ 1,894.47 crore).

The total market capitalization of the shares of seven Railway Commercial Undertakings, as on 31 March 2021, was ₹ 1, 14,500.95 crores which was 236 per cent more than the market capitalisation as of 31 March 2020.

Return on Equity (RoE), a measure of financial performance of companies, had steadily decreased from 9.36 *per cent* in 2019-20 to 7.45 *per cent* in 2020-21.

Chapter 3: Pension Payment in Indian Railways

The weak internal control and non-observance of relevant rules and procedures led to several instances of excess/short payment of pension. Prescribed reconciliation processes and instructions of Railway Board were not rigorously followed.

The deficiencies in PPO and delay in revision of pension had resulted in delay in authorizing disbursement of pension.

Advanced Railway Pension Access Network (ARPAN) master data was not complete, accurate and reliable. Corrective action was not taken as per the exception reports generated in ARPAN.

Chapter 4: Accounting Reforms in Indian Railways

Indian Railways (IR) maintains its finance accounts under cash based government accounting system in the forms and formats mandated by the Controller General of Accounts (CGA) and Comptroller and Auditor General of India (C&AG). In order to bring transparency in financial reporting and fiscal prudence, IR decided to adopt accrual based accounting system. Accordingly, 'Accounting Reforms Project' (ARP) was taken up in 2015-16 and was targeted for implementation in IR by 2018.

ARP of IR identified three functional areas – Accrual accounting, (assists the management to enhance the effectiveness of public expenditure through accurate and reliable financial information), Performance costing (helps in proper classification and recording of cost and profit center) and Outcome budgeting (enables the tracking of expenditure towards desired outcomes).

After delay of about 17 months, the work in progress was only 65 per cent as of March 2022 for preparation of accrual based financial statements. The performance costing work was awarded in December 2016. Institute of Cost and Works Accountants of India Management Accounting Research Foundation (ICWAI MARF) has submitted its final report in December 2020. However, only in principle approval was accorded by Railway Board. Outcome Budgeting module was excluded from the ARP due to merger of Railway Budget.