

# **Comptroller and Auditor General of India**

for the year ended March 2016

Laid in Lok Sabha/Rajya Sabha on \_\_\_\_\_

**Union Government (Railways)**  
**Railways Finances**  
Report No. 37 of 2016



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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.

**Chapters 1 and 2** of the Report contain audit observations on matters arising from examination of Finance Accounts and Appropriation Accounts respectively of Indian Railways for the year ended 31 March 2016.

**Chapter 3** of the Report contains the nature and trend of persistent misclassification in the Accounts of Indian Railways, the reasons for their recurrence, follow up action taken to rectify the misclassifications and mistakes in Accounts and the impact of non-rectification of these errors on financial statements.



## EXECUTIVE SUMMARY

### Background

Indian Railways (IR) is a departmental commercial undertaking of the Government of India. It consists of 66,687 route kms\* on which 23,024 trains ply, carrying about 22.5 million passengers and hauling nearly 3.03 million tonne of freight every day. Policy formulation and overall control of the Railways are vested in Railway Board (RB) comprising of the Chairman, Financial Commissioner and other functional Members. The IR system is managed through 17 zones having 68 operating divisions. Apart from the zonal railways representing the operational part of the system, there are eight production units engaged in manufacturing of rolling stock and other related items.

From 1 April 1950, a separate Railway Budget is being presented to the Parliament prior to presentation of the General Budget every year. Though the Railway Budget is presented to the 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 2015 (Report No. 53 of 2015) highlighted that during 2014-15, total revenue receipts, increased by 12.43 *per cent* which was below the Compound Annual Growth Rate (CAGR) of 13.99 *per cent* during the period 2010-14. The growth of freight earnings and passenger earnings were 12.66 *per cent* and 15.49 *per cent* respectively against the CAGR of 14.32 *per cent* and 12.30 *per cent* achieved during 2010-14. Net surplus after meeting dividend liability was ₹ 7,664.94 crore in 2014-15. The Operating Ratio improved to 91.25 *per cent* in 2014-15 from 93.60 *per cent* in 2013-14.

During 2015-16, total revenue receipts increased by 4.57 *per cent* which was significantly below CAGR of 14.86 *per cent* during the period 2011-15. The growth of freight earnings was 3.23 *per cent* in 2015-16 which was below the CAGR of 15.01 *per cent* registered during 2011-15. The growth of passenger earnings was 4.96 *per cent* in 2015-16 which was also below the CAGR of 14.31 *per cent* registered during 2011-15.

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

The Operating Ratio improved to 90.49 *per cent* in 2015-16 from 91.25 *per cent* in 2014-15. Net surplus after meeting dividend liability stood at ₹ 10,505.97 crore in 2015-16 as against ₹ 7,664.94 crore in 2014-15.

Railway funds closed at ₹ 10,806.68 crore at the end of 2015-16 against the fund balance of ₹ 6,872.73 crore in 2014-15. The improvement in fund balances was mainly due to not making payment of capital component of lease charges to Indian Railway Finance Corporation (IRFC) amounting to ₹ 12,629.49 crore during the period 2011-12 to 2013-14 from Capital Fund. However, IR started payment of capital component of lease charges to IRFC from Capital Fund from 2014-15 and made a payment of ₹ 5,449.24 crore in 2014-15 and ₹ 6,324.74 crore in 2015-16. Capital Fund closed at ₹ 907.43 crore at the end of 2015-16. Depreciation Reserve Fund (DRF) and Pension Fund closed with balances of ₹ 32.78 crore and ₹ 5,657.30 crore respectively in 2015-16. Further, the contribution to the DRF was not made as per requirement despite there being a huge backlog of over aged assets amounting to ₹ 41,274.49 crore in the railway system required to be replaced for safe running of trains.

IR was unable to meet its operational cost of passenger and other coaching services. During 2014-15, there was a loss of ₹ 33,821.70 crore on passenger and other coaching services. The freight services earned a profit of ₹ 38,312.59 crore which indicated that 88.28 *per cent* of the profit from freight traffic was utilized to compensate the loss on operation of passenger and other coaching services. The above issues have regularly been highlighted in the preceding Reports of Comptroller and Auditor General of India-Union Government (Railways)-Railways Finances.

IR incurred ₹ 75.87 crore more than the authorization given by the Parliament in one revenue grant and five revenue appropriations despite obtaining supplementary provisions in all five revenue appropriations. In 13 revenue grants and two segments of capital grant, there were savings of more than ₹ 100 crore.

The Public Accounts Committee in its various reports has expressed serious concern over large number of misclassification occurring in the Accounts of Railways and despite repeated assurances given by the Ministry of Railways in their Action Taken Notes that necessary remedial measures have been taken to ensure that misclassification is curbed, numerous instances of misclassification are still being noticed by Audit.

During 2010-11 to 2014-15, 560 cases of misclassifications and mistakes in accounts worth ₹ 3,548.95 crore pointed out by Audit which were accepted and included in Printed Detailed Appropriation Accounts - Part II as 'Annexure J' by Ministry of Railways. Out of these 560 cases, 426 cases amounting to ₹ 3,031.36 crore pertained to six Zonal Railways.



In 12 Zonal Railways, CLW and CORE (Allahabad) 193 cases involving ₹ 337.75 crore due to misclassification and incorrect exhibition of expenditure under various Revenue Grants and Capital Grant which could have been avoided by Railway Administration after proper scrutiny of initial documents were noticed.

In 11 Zonal Railways, 66 cases of irregular adjustments involving money value of ₹ 1,431.05 crore were pointed out by audit and accepted by Railways.

It is observed that errors which could have been detected by the Accounts Department through internal check and rectified before closure of Final Accounts for the financial year remained un-noticed.

### **Recommendations**

Recommendations on various aspects of Railways Finances are given below:

- *Ministry of Railways needs to revisit the passenger and other coaching tariffs so as to recover the cost of operations in a phased manner and reduce its losses in its core activities. Operational losses on running of sub-urban train services and on account of facility of free/concessional/Complimentary passes to various classes of passengers need to be curtailed.*
- *Railways need to improve staff productivity which has been deteriorating over the years.*
- *Operating Ratio of Eastern, Northern, North Eastern, Northeast Frontier, Southern Railways and Metro Railway Kolkata has been more than 100 per cent during the last five years. There is urgent need to analyse the reasons for their operational/financial inefficiency and remedial measures need to be taken.*
- *IR has tied up funding assistance from LIC of India {Extra Budgetary Resources– Institutional Finance (EBR-IF)}. It is important that funds so received are used judiciously and are not allowed to remain idle and incur interest liability.*
- *Non-availability of sufficient funds in Depreciation Reserve Fund to replace the over aged assets is indicative of weak financial health of Indian Railways. Ministry of Railways should explore suitable means to improve its fund balances.*
- *Ministry of Railways should impress upon the budget controlling authorities for regular monitoring of the flow of expenditure and budget allotment and take prompt action for seeking additional funds/surrender of funds allotted.*
- *Ministry of Railways may adopt effective measures for integrating the field accounting units with the Railway Board Accounts in a common*

*format through IT Modules (IPAS) as the same has not been fully implemented.*

- *The unsanctioned expenditure should be controlled; administration should ensure all unsanctioned expenditure is regularised on priority.*
- *Effective co-ordination between Executive Departments and Accounts to detect and rectify the mistakes before the end of financial year and to take effective measures so as to keep stringent check on misclassifications in accounting needs to be established.*
- *Internal Audit should identify the thrust areas where misclassifications are committed and fine tune the internal control mechanism suitably.*
- *Compendium of common/likely mistakes should be prepared and circulated for guidance of staff. A checklist for guidance of staff in view of audit observations should be prepared so that mistakes are not committed year after year.*