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[26] (Grants number 1 to 15) and 1 Capital Grant[27] (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.

---

26 ***Grants detailing working expenses and other revenue expenditure as voted by Parliament..***
27 ***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 2010, 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 2009-10

(₹ in crore)

	Original Grant/ Appropriation	Supplementary Grant	Total Sanctioned Grant	Actual Expenditure	Saving (-) / Excess (+)
Voted					
Revenue	***1,05,483.62***	***4,100.23***	***1,09,583.85***	***1,06,913.57***	***(-)2,670.28***
Capital	***61,702.76***	***1,899.00***	***63,601.76***	***58,096.07***	***(-)5,505.69***
Total Voted	***1,67,186.38***	***5,999.23***	***1,73,185.61***	***1,65,009.64***	***(-)8,175.97***
Charged					
Revenue	**84.42**	**27.20**	**111.62**	**127.40**	**15.78**
Capital	**55.08**	**15.50**	**70.58**	**65.13**	**-5.45**
Total Charged	**139.50**	**42.70**	**182.20**	**192.53**	**10.33**
Grand Total	***1,67,325.88***	***6,041.93***	***1,73,367.81***	***1,65,202.17***	***(-)8,165.64***

The above table indicates that out of the total expenditure of IR at ₹1,65,202.17 crore during the financial year 2009-10, nearly 65 *per cent* was spent on revenue grants which constituted working expenses on administrative, operational and maintenance activities and 35 *per cent* was spent on capital grant dealing with creation and augmentation of infrastructure facilities through Assets Acquisition, Construction and their Replacement/Renewal. Table also indicates savings of 2.42 *per cent* (₹2,654.50 crore) in revenue grants and 8.65 *per cent* (₹5,511.14 crore) in capital grant against the sanctioned provisions available in 2009-10.

An analysis of grant wise expenditure revealed that the net saving of ₹8,165.64 crore was a result of savings of ₹10,095.25 crore under seven revenue grants, four segments of capital grant and eight revenue appropriation[28] and three segments of capital appropriation, adjusted by an excess of ₹1,929.61 crore in eight revenue grants, three revenue appropriations and one segment of capital appropriation.

2.1.1 Revenue Grants

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

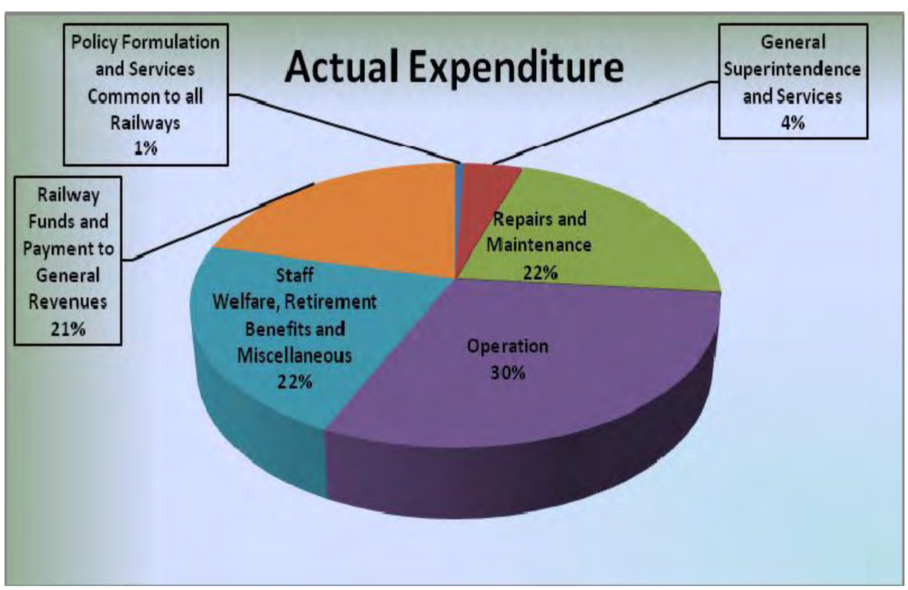
28 ***Appropriation refer to expenditure charged on Consolidated Fund of India***

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 2009-10, is shown in the Chart given below

Chart-2.1 Group wise Revenue Expenditure (2009-10)



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

Table- 2.3 Group wise Estimates, expenditure and Variation (2009-10)

(₹ 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	769.74	0.00	769.74	721.23	-48.51	-6.3
General Superintendence and Service on Railways	4,405.83	195.94	4,601.77	4,560.67	-41.10	-0.89
Repairs and Maintenance	21,651.44	1,193.40	22,844.84	23,140.40	295.56	1.29
Operation	31,157.62	1,325.66	32,483.28	32,411.18	-72.10	-0.22
Staff Welfare, Retirement Benefits and Miscellaneous	20,686.93	1,352.82	2,2039.75	23,548.40	1,508.65	6.85
Railway Funds and Payment to General Revenues	26,896.48	59.61	26,956.09	2,2659.09	-4,297.00	-15.94

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

- **Indian Railways Policy Formulation:**

  Savings were due to lower expenditure towards staff cost, conducting lesser number of examinations by Railway Recruitment Board, lower expenditure under International Union of Railways, etc.

- **General Superintendence and Service on Railways**

  Savings were due to incorrect estimation of impact of 6th Central Pay Commission (CPC) recommendations and non-filling up of vacant posts.

- **Repairs and Maintenance**

  Excesses were due to underestimation of impact of 6th CPC recommendations, more drawal of material from stock on account of Periodical Overhaul etc.

- **Operation**

  Under this group, there was excess under Grant no. 8 and 9 mainly due to incorrect estimation of staff cost on account of 6th CPC recommendations. Savings in grant no.10 were mainly due to lower consumption of diesel oil, lower expenditure towards freight and handling charges etc.

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

  There was excess of over ₹1,500 crore despite obtaining a supplementary grant. This was attributed to under estimation of pensionery liabilities on account of 6^{th} CPC recommendations.

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

  Savings of ₹4,301.51 crore in grant no. 14 – Appropriation to Funds was primarily due to much lower appropriation to the Depreciation Reserve Fund and Development Fund on account of substantially lower generation of revenue surplus.

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 2.7

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
Revenue- Voted					
1	***Grant No. 4- Repairs and Maintenance – Permanent Ways and Works***	***6,908.95***	***531.81***	***7,496.26***	*55.50*
2	***Grant No. 5- Repairs and Maintenance of Motive Power***	***3,306.67***	***81.66***	***3,479.20***	*90.87*
3	***Grant No.6 – Repairs and Maintenance of Carriage and Wagons***	***7,425.46***	***267.03***	***7,857.06***	*164.57*
4	***Grant No. 8 – Operating Expenses – Rolling Stock and Equipment***	***5,262.59***	***684.69***	***5,983.59***	*36.31*
5	***Grant No. 9 – Operating Expenses – Traffic***	***11,181.66***	***638.25***	***11,843.34***	*23.43*
6	***Grant No. 12 – Miscellaneous Working Expenses***	***3,157.65***	***0.00***	***3,177.24***	*19.59*

S.No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Excess
7	***Grant No. 13- Provident Fund, Pension and other Retirement Benefits***	***14,265.30***	***1,133.52***	***16,911.21***	*1,512.39*
8	***Grant No. 15 – Dividend to General Revenues, Repayment of Loans taken from General Revenues and Amortization of Over-Capitalization***	***5,479.22***	***59.61***	***5,543.34***	*4.51*
Revenue- Charged					
9	***Appropriation No. 3 General Superintendence and Services***	***0.02***	***0.09***	***0.35***	*0.24*
10	***Appropriation No. 5 – Repairs and Maintenance – Motive Power***	***0.00***	***0.00***	***0.02***	*0.02*
11	***Appropriation No. 10- Operating Expenses-Fuel***	***0.00***	***2.25***	***21.07***	*18.82*
Capital- Charged					
12	***Appropriation No. 16 – Assets, Acquisition, Construction and Replacement***	***45.52***	***15.50***	***64.38***	*3.36*
	Total				***1,929.61***

Of the eight grants and four 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 had been discussed in Paragraph 2.1.1 above.

Public Accounts Committee (PAC) in its Twenty Second Report (15th Lok Sabha) on 'Excess over Voted Grants and Charged Appropriations (2008-09) observed that incurring huge amounts of excess expenditure over and above the budgetary provisions sanctioned by Parliament at different stages of budget did not augur well for ensuring proper and judicious utilisation of public funds besides undermining Parliamentary financial control. In response to PAC observations, IR stated that implementation of 6th CPC recommendations started from the latter part of 2008-09 in a piece-meal manner and an accurate assessment of the impact was quite difficult resulting in excess expenditure.

Audit, however, observed that the situation had not improved even in 2009-10, as the excess expenditure was again attributed to the impact of implementation of 6th CPC recommendations.

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 2008-09 and 2009-10 in the grants dealing with repairs and maintenance and operating expenses-Rolling Stock and Equipments as tabulated below:

Table 2.5 Persistent Excess Expenditure

(₹ in crore)

S.No.	Particulars	2008-09	2009-10
1	*Grant No. 4- Repairs and Maintenance – Permanent Ways and Works*	*104.45*	*55.50*
2	*Grant No. 5- Repairs and Maintenance of Motive Power*	*95.24*	*90.87*
3	*Grant No.6 – Repairs and Maintenance of Carriage and Wagons*	*149.69*	*164.57*
4	*Grant No. 8 – Operating Expenses – Rolling Stock and Equipment*	*131.06*	*36.31*

IR attributed the excess mainly to implementation of 6th CPC recommendations, additional drawal of stores, materialization of more contractual obligations, higher direct purchases than anticipated, more expenditure on wages and materials on Periodical Over-Hauling 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 ₹10,095.25 crore. In five cases, as detailed below, the savings exceeded ₹100 crore:

Table 2.6: Savings over ₹100 crore

(₹ in crore)

S.No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Saving
1	*Grant No. 10 – Operating Expenses – Fuel*	*14,713.18*	*0.00*	*14,562.93*	*150.25*
2	*Grant No. 14 – Appropriation to Funds*	*21,417.26*	*0.00*	*17,115.75*	*4,301.51*
3	*Grant No. 16 – Capital*	*43,202.76*	*1,899.00*	*43,081.05*	*2,020.71*
4	*Grant No. 16 – Railway Funds*	*16,983.14*	*0.00*	*14,167.55*	*2,815.59*
5	*Grant No. 16 – Railway Safety Fund*	*1,456.88*	*0.00*	*806.90*	*649.98*

Reasons for these savings were attributed to lower drawal of diesel oil for train operations than anticipated (grant no.10), lower generation of net revenue surplus (grant no.14), slow progress of works, lesser activities in Production Units, lower investment in Public Sector Undertakings 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 five grants as tabulated below**:**

Table 2.7 Persistent Savings

(₹ in crore)

S.No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1	*Grant No. 10 – Operating Expenses – Fuel*			*102.20*	*301.30*	*150.25*
2	*Grant No. 14 – Appropriation to Funds*		*556.55*	*373.99*	*6,429.96*	*4,301.51*
3	*Grant No. 16 – Capital*		*997.99*	*789.47*	*537.20*	*2,020.71*
4	*Grant No. 16 – Railway Funds*			*1,634.35*	*1,723.38*	*2,815.59*
5	*Grant No. 16 – Railway Safety Fund*	*447.89*	*350.66*	*517.44*	*734.56*	*649.98*

- Persistent savings in grant no. 10 was attributed to lower drawal of diesel oil for train operations and less adjustments of debits.
- Savings, during 2006-08, in grant no.14 had occurred because appropriation to DRF and/or Pension Fund had been reduced due to lower requirement of funds. However, in 2008-10, 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.
- Savings in grant no.16-Capital and Railway Funds were mainly attributed to slow progress of planned works, lower expenditure in acquisition of rolling stock, less activity in Workshops, lesser expenditure towards procurement under Store Suspense head etc.
- Slow progress of works, delay in acquisition of land, less contractual activities were the main reasons 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 ₹5,999.23 crore were taken during 2009-10 in ten revenue voted grants. These were obtained mainly for payment of staff cost on account of 6^{th} CPC recommendations. 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 seven revenue grants still exceeded the sanctioned allocation (Table 2.4 above). In grant no. 3 and 11, supplementary provisions of 21 *per cent* and 11 *per cent* remained unutilized.

Supplementary provisions of ₹42.70 crore were obtained under charged appropriations to meet higher decretal payments than anticipated. However, the assessment of supplementary provisions under charged appropriations no. 3, 9, 10 and 11 were either inadequate or excessive by more than 100 *per cent*. The reasons of such huge variation were explained due to more/less 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 financial year. However, it was seen that the capital segment of grant no. 16 had savings of ₹2,020.71 crore in 2009-10 (4 *per cent* of total budgetary support received), out of which ₹809.03 crore was surrendered on 31 March 2010, depriving Government of India of the opportunity of utilising these funds for other departments by correspondingly reducing gross budgetary support for IR. In three grants (2, 10, and 16-Railway Funds) and one appropriation (no.16-Railway Funds) the amounts surrendered exceeded the savings.

IR, in December 2010, in response to the audit observations stated that savings under Demand no.16 was notional and IR utilised the gross budgetary support fully on net basis and thus there had been no surrender of funds. The contention of IR that there had been no surrender of funds was not correct as savings in the Appropriation Accounts had been worked out with reference to the authorisation obtained for incurring expenditure on gross basis (i.e. sanctioned grant) through Demands for Grants. In fact a surrender of ₹809.03 crore had been depicted in the Appropriation Accounts of grant no.16-Captial.

2.5 Budgetary Control by Spending Units

Budget estimates are usually calculated by IR after taking into account zonal railways requirements which are analyzed and moderated. Rules provide[29] 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[30] (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 39 cases, funds were surrendered through FMS by zonal railways in excess of availability.
- In 13 cases, zonal railways surrendered funds through FMS despite expenditure exceeding the sanctioned allocations.
- In 14 cases, zonal railways, through FMS, surrendered 50 *per cent* or more of the supplementary provisions allocated to them. It included nine cases, where 100 *per cent* of the supplementary provisions allocated to them were surrendered.
- In 15 cases, zonal railways received additional funds through re-appropriation at the fag end of the year despite expenditure already incurred was less than the sanctioned grant.

Such instances indicated defective budgetary control and resulted in consequent issue of injudicious re-appropriation orders.

2.6 In-depth Study of one Grant - 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 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,

29 ***Paragraph 376 of Indian Railways Finance Code enumerates the powers of re-appropriation of funds***

30 ***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.***

- **Railway Funds**-internal resources kept under three different reserves[31],
- **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 ₹1 lakh financed from revenue.

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

2.6.1 Macro Analysis

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 (+)
Voted Portion					
Capital	***43,202.76***	***1,899.00***	***45,101.76***	***43,081.05***	*(-) 2,020.71*
Railway Fund	***16,983.14***	***0.00***	***16,983.14***	***14,167.55***	*(-) 2,815.59*
Railway Safety Fund	***1,456.88***	***0.00***	***1,456.88***	***806.90***	*(-) 649.98*
Open Line Works – Revenue	***59.98***	***0.00***	***59.98***	***40.57***	*(-) 19.41*
Total Voted	*61,702.76*	*1,899.00*	*63,601.76*	*58,096.07*	*(-) 5,505.69*
Charged Portion					
Capital	***45.52***	***15.50***	***61.02***	***64.38***	***(+) 3.36***
Railway Fund	***8.06***	***0.00***	***8.06***	***0.47***	***(-) 7.59***
Railway Safety Fund	***1.48***	***0.00***	***1.48***	***0.27***	***(-) 1.21***
Open Line Works – Revenue	***0.02***	***0.00***	***0.02***	***0.01***	***(-) 0.01***
Total Charged	*55.08*	*15.50*	*70.58*	*65.13*	*(-) 5.45*

- **Capital**

In 2009-10, provision of ₹43,202.76 crore was made for acquisition and construction of assets. Additional budgetary support of ₹1,899 crore was received through supplementary grant for execution of National Projects in Northern and Northeast Frontier Railways. The entire supplementary provision except ₹86 lakh was utilized on National Projects.

There was a net savings of ₹2,020.71 crore, against the sanctioned provision, in this segment of the grant. Savings were attributed to slow progress of works, less procurement of stores, lower expenditure in setting up of Wheel Plant at Chhapra and decline in production of Diesel Multiple Units and passenger coaches, lower investments in Government Undertakings etc.

---

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

• 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 (+)**
Voted Portion					
Depreciation Reserve Fund	***9,668.92***	***0.00***	***9,668.92***	***7,742.09***	*(-) 1926.83*
Development Fund	***3,313.72***	***0.00***	***3,313.72***	***3,142.58***	*(-) 171.14*
Capital Fund	***4,000.50***	***0.00***	***4,000.50***	***3,282.88***	*(-) 717.62*
Total Voted	***16,983.14***	***0.00***	***16,983.14***	***14,167.55***	*(-) 2.815.59*
Charged Portion					
Depreciation Reserve Fund	*4.98*	*0.00*	*4.98*	*0.09*	*(-) 4.89*
Development Fund	*2.58*	*0.00*	*2.58*	*0.32*	*(-) 2.26*
Capital Fund	*0.50*	*0.00*	*0.50*	*0.06*	*(-) 0.44*
Total Charged	*8.06*	*0.00*	*8.06*	*0.47*	*(-)7.59*
Total Voted and Charged	*16,991.20*	*0.00*	*16,991.20*	*14,168.02*	*(-) 2,823.18*

Analysis of this segment of grant revealed there were net savings of ₹2,816 crore (17 *per cent* of the sanctioned grant). Against this savings, account of this segment of grant depicted surrender of ₹3,782 crore.

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

- **DRF-** Savings of ₹1,927 crore (20 *per cent*) occurred against the sanctioned provisions of ₹9,669 crore. This indicated that IR did not carry out renewal/replacement expenditure as planned.

Expenditure on renewal/replacement is met from the fund balance available under DRF. Audit observed that against the proposed appropriation of ₹7,000 crore in 2009-10, actual appropriation of ₹2,187 crore only was made to the DRF, a reduction of 69 *per cent*. Orders for reduced appropriation were issued in June 2010 i.e. after closure of the financial year.

To keep the expenditure within the reduced balance available in the fund account, IR transferred expenditure incurred on Rolling Stock (Bulk Orders) initially booked under DRF to Capital and Deposits. A test check in audit revealed that expenditure of ₹171.54 crore financed through DRF on replacement of rolling stock was transferred to Capital or Deposit head of Account (IRFC Deposit). Transferring of expenditure to Capital and Deposit Head of Account resulted in extra annual recurring expenditure in the shape of payment of dividend to general revenues and lease charges to IRFC. Besides this, expenditure (Paragraph 2.8) of ₹218.24 crore was misclassified from DRF to other heads of account which had also reduced expenditure under DRF.

Had above expenditure of ₹389.78 crore remained classified under DRF, the balance at the close of the year under fund account of DRF would have been negative.

- **DF**- Expenditure of ₹3,143 crore was incurred against the provision of ₹3,314 crore resulting in savings of ₹171 crore. However, above expenditure had resulted in negative balance under the fund account. This negative balance was made up by transferring funds of ₹725 crore from CF account. A comment in this regard is made in paragraph 3.6.1 of Chapter 3 of this Report.

- **CF**- There was a saving of ₹717 crore (18 *per cent*) of the sanctioned grant of ₹4,000.50 crore. Savings occurred as proposed investment in Dedicated Freight Corridor Corporation of India Limited (DFCCIL) was not made.

- ***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. Despite availability of funds there were delays in execution of road safety works.

- ***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. Thirty two *per cent* of the originally allocated funds of ₹59.98 crore were not utilized. The savings were attributed to slow progress of works, non/less finalization of contracts, less materialization of contractual payment etc.

2.6.2 Micro Analysis

Works/activities under each segment of the grant were grouped under 33 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 New Lines Construction (₹265 crore- 17 *per cent*[32]), Gauge Conversion works (₹931 crore-38 *per cent*), Doubling projects (₹470 crore-25 *per cent*) and Rolling Stock acquisition (₹1,060 crore- 106 *per cent*).
    - Substantial non-utilization and surrender of funds were noticed in the plan heads Signal and Telecommunication (₹151 crore- 75 *per cent*), Other Electric Works (₹118 crore-78 *per cent*), Construction of Staff Quarters (₹122 crore-66 *per cent*) and Investments in Government Commercial Undertakings (₹1,930 crore- 100 *per cent*).

---

32 *Percentage was with reference to sanctioned grant.*

- 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 Gauge Conversion works (` 31 crore -63 *per cent*).
  - Heavy surrenders and non-utilization of funds were noticed in plan heads dealing with Computerization (₹133 crore- 50 *per cent*), Rolling Stock (₹918 crore – 38 *per cent*), Track Renewal (₹1,028 crore-20 *per cent*), Bridge works (₹ 127 crore-26 *per cent*), Passenger and other Railway User Amenities (₹193 crore-17 *per cent*) and Investments in Government Commercial Undertakings (₹785 crore-48 *per cent*).

Further, in 16 plan heads[33] injudicious surrender/re-appropriation of unutilized funds to activities under other plan heads was much more than the net savings resulting in excess expenditure with reference to final grants. In two plan heads under Railway Funds segment, funds were surrendered/re-appropriated to other plan heads despite expenditure already exceeded the sanctioned grant.

Large scale changes in priorities and re-appropriation of originally allocated resources from one plan head to another or from one railway to 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**
- **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 (414 cases) involving excess/savings beyond the prescribed limits[34] were noticed. These are detailed in the "Appropriation Accounts of IR 2009-10 – Part-I Review). Northern (83 cases), North Central (57 cases), South Central (49 cases) and Eastern (30 cases) were the railways with most number of cases on defective budgeting.

---

33 ***6 under Capital segment, 8 under Railway Funds segment and 2 under Open Line Works (Revenue) segment,***

34 ***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.***

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 2009-10 – 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 ₹27.12 crore pertaining to revenue heads of account was misclassified to capital heads of account and ₹10.04 crore from capital heads of account of revenue heads of account thereby understating the revenue expenditure to the extent of ₹17.08 crore. Further, expenditure under grant number 16-Railway Funds was understated by ₹218.24 crore as it was misclassified to grant no.16-Capital.

Despite being pointed out by Audit and the Public Accounts Committee repeatedly, adequate attention was not paid at various levels to eliminate/minimise 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 ₹3,820 crore as of March 2008 to ₹5,297 crore as of March 2009 and ₹6,205 crore as of March 2010. Unsanctioned expenditure as of 31 March 2010, included ₹2,845 (54 *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.***