

Chapter 3 Limitations of Indian Railways Accounts and Comments on Accounts

Provisions of Rule 18 of Government Accounting Rules, 1990 stipulate that financial results of Government Undertakings should be expressed in normal commercial form so that the cost of the service or undertaking may be accurately known. Rule 36 provide that department or departmental undertakings of Government functioning on commercial lines should observe the essential formalities of commercial accounts to the extent prescribed by the Government. In such cases separate commercial account of the department or undertakings should be kept outside the regular Government accounts. IR being a departmental commercial undertaking of the Government of India prepares Capital and Revenue Accounts at Zonal Railways level to facilitate a review of the finances of the Railways as a commercial undertaking. However, these accounts are not being regularly prepared by all the Zonal Railways.

IR, in support of Appropriation Accounts, also prepares financial statements such as profit and loss accounts and balance sheets for financial transactions carried out by it. Audit review revealed certain weaknesses, and limitations apart from errors and omissions in preparation of these statements. These are discussed in succeeding paragraphs.

3.1 Non-disclosure of significant accounting policies

Financial Statements are a structured representation of the financial position and financial performance of an organization. The objective of financial statements is to provide information about the financial position, financial performance and cash flow of an organization that is useful to a wide range of users in making economic decisions. Thus, a complete set of financial statements consist of balance sheet, an income statement, a cash flow statement and notes comprising a summary of significant accounting policies and other explanatory notes.

The significant accounting policies lay down the basis for recognition, measurement and disclosure of specific transactions and other events in presenting the financial statements. It also ensures the comparability both with the organization's financial statements of previous periods and with the financial statements of other organizations.

IR being a Government Commercial Undertaking prepared a balance sheet and a profit and loss account but did not follow a system of disclosing the significant accounting policies which form the basis of preparation of financial statements, like accounting of fixed assets, depreciation, provisioning for liabilities for pension, revenue recognition etc. Further, a cash flow statement, which records the amount of cash/cash equivalent entering and leaving the

organization and complements the balance sheet and profit and loss account in analyzing the financial health of the organization, was also not being prepared by IR as a part of the financial statements.

3.2 Non-disclosure of schedules and notes to the financial statements

Financial Statements prepared on commercial basis include the schedules and notes to the balance sheet and profit and loss accounts which form part of the Final Accounts. The schedules give the break up for the major items appearing in the balance sheet and profit and loss accounts. The notes attached to the financial statements explain the accounting treatments and estimates to give adequate information to the readers in understanding the accounts. IR did not prepare any schedule and notes to the major items of its assets, liabilities, revenue and expenditure except the Statement of Block Assets (including capital advanced from general budget).

3.3 Limitations and Weaknesses of Balance Sheet of IR

A balance sheet is a statement of financial position of the organization indicating its assets, liabilities and owner's capital at a specific point of time.

Liabilities as depicted in the balance sheet of IR comprised of Investments financed from loan capital (advanced from general budget) and other funds (either financed from internal resources or special contribution from general budget or share of Diesel Cess), balances under Reserve and other funds/deposits lying in the Public Accounts of India and sundry creditors (Demand Payable and outstanding dues).

Assets of IR comprised of block assets (land, structures, equipment, moveable assets, inventory and investments) created out of loan capital and other reserve funds, balances of the reserve funds/deposits lying with Government of India, other assets such as cash in hand, unrealized revenues and sundry debtors.

However, limitations and weakness affecting individual line items in the balance sheet of IR are given below:

3.3.1 Block Assets (Plant, Property and Equipment)

Financial statements prepared on commercial lines included plant, property and equipment (Fixed Assets) as the major item on the asset side with a detailed schedule indicating the original cost (gross block), cumulative depreciation (depreciation block) and net book value (net block) with additions and deletions in the respective years. This schedule is prepared based on the Fixed Assets Register which describes the details of each of the asset like date of purchase/installation, original cost, location etc. The capital work

in progress (expenditure incurred on on-going capital projects) though a part of the total block assets is also distinctly shown in the financial statement.

The balance sheet of IR depicted block assets at their original cost and not at their depreciated value. IR, as per the practice followed in Government Accounting did not depreciate its assets in its financial statement every year. However, it depreciated the assets in the accounts at the time of replacement/renewal or condemnation without replacement. Thus, the value of block assets as depicted in the balance sheet did not represent the true written down value. The capital works-in-progress was also included in the block assets and not distinctly shown.

3.3.2 Investments

Investments made by the Organization need to be distinctly shown in the financial statements at fair value and tested for impairment (diminution in the value of the carrying cost as against the realisable value) at the end of every financial period as per the generally accepted accounting principles.

The Investments of IR as presented in its balance sheet represented the investment from IR Conference Association Employee Provident Fund and Staff Benefit Fund. However, the Investment in the Government commercial undertakings, Special Purpose Vehicles and Joint Ventures etc were not depicted under the head 'Investment'. These were included in the block assets at its original cost. Thus the value of block assets as presented in the balance sheet remained overstated to the extent of the value of these investments. The investments were also not tested for impairment at the end of each financial year so as to reflect the fair value.

3.3.3 Inventory

As per the commercial system of accounting, the inventory of raw material, work-in-progress, finished products and stores and spares, represent the current assets which needs to be valued, in the financial statements, at cost or net realisable value, whichever is less.

The block assets of IR as stated in its balance sheet included the floating assets such as stores, balance in manufacturing accounts and miscellaneous advances. As per the system in vogue in IR, all items procured whether for capital projects or regular operation and maintenance were accounted through the Stores Suspense Account operated under the capital head of account. The balance in the Stores Suspense at the end of the year was included in the block assets (fixed assets). Thus there was no separation of all its floating assets from fixed assets and the block assets at the end of the year stands overstated. As the value of the Stores Suspense in the block assets at the end of the year

was included in the capital-at-charge, this has a bearing on the dividend payable by IR to the Government.

3.3.4 Sundry Debtors and other receivables

Prudent commercial accounting practices provide that the sundry debtors and receivables are stated at the realisable values with a suitable disclosure of the accounting policy on provision for bad and doubtful debts. In other words, necessary provision towards bad and doubtful debts needs to be provided for against the outstanding debts.

IR balance sheet depicted sundry debtors and other receivables at its book value. Sundry debtors mainly included the dues receivable from Power Houses, railway siding owners, other receivables from customers and staff. No aging analysis of the outstanding dues was being done so as to decide about their realisability. These dues were depicted at book value in the financial statements without making any provision for bad and doubtful debts. In the absence of aging analysis and a policy for provision for bad and doubtful debts, the realisability of the stated dues could not be ascertained from the financial statement.

3.3.5 Clear Liabilities

Rules (Para 220 of IR Accounts Code Vol.-I) provide that revenue liability which remains un-discharged should be brought to the account as working expenses by debiting the service heads and contra credit to the Suspense head called 'Demand Payable'. However, several clear liabilities such as settlement dues, supply of sundry materials, payment of compensation under Workmen's Compensation Act etc, as listed in the note to paragraph 220 of IR Code for Accounts Department Vol-I, were kept outside the purview of this provision. Besides, it was also observed by Audit that clear liabilities on account of payment of deferred dividend and Government Railway Police (GRP) engaged for maintaining law and order in railway premises were also not accounted for as expenditure of the respective financial year. Non accounting of the clear liabilities resulted in understatement of expenses and current liabilities and overstatement of net profit of the respective years.

3.3.6 Contingent Liabilities

Organizations preparing accounts on commercial basis are required to disclose present obligations arising from past events where it is not probable that there will be an outflow of resources to settle the obligation and a possible obligation where the probability of outflow of resources is remote. This would enable the users of the financial statements to assess the possible liabilities that may arise in future. However, IR had not been disclosing contingent liabilities like guarantees issued to Public Sector Undertakings/Special Purpose

Vehicles/Joint Ventures pending Court and Arbitration cases, disputed claims pending settlements, etc in its financial statements.

3.4 Limitations and Weaknesses of Profit and Loss Accounts

The profit and loss account depicts the working results of an organization by presenting the income, expenditure and net operating profit/loss for an accounting period. Appropriation from profit to any reserves or other funds and the dividend payments are depicted distinctly from the working results by recording these under the head 'Appropriation'.

Income as depicted in the profit and loss account of IR mainly included the passenger fare and freight charges, subsidy received from general revenues towards dividend relief and other concessions. The expenditure mainly consisted of working expenses, appropriation to various funds and dividends. The profit and loss account of IR did not distinctly depict the operational results for the year as the dividend to the general revenues was charged to the profit and loss account.

Further limitations and weakness affecting individual line items in the profit and loss account of IR are given below:

3.4.1 Depreciation

As per the commercial system of accounting, depreciation representing the reduction in value of asset on account of wear and tear and usage over the estimated economic life, obsolescence is charged to the income statement every year.

The system in vogue in IR is to set apart an adhoc sum, towards contribution to the Depreciation Reserve Fund by charging off to the working expenses, as decided by Railway Convention Committee constituted by Parliament. This appropriation was done based 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 the net revenue surplus at the desired level. Further, due to adhoc provisioning for depreciation, profit and loss account did not give a fair view of the working results of IR.

3.4.2 Provisions for Retirement Benefits

The financial statements prepared on commercial basis should provide for the entire retirement benefits including future liability towards pension, gratuity and leave encashment. Pension Fund was created by IR to cover the current pension payments as also to meet the accumulated liability. However, the contribution to the Pension Fund in IR is being made, as decided by the Railway Convention Committee, on the basis of actual requirement of pension

outgo every year without making provisions for future liabilities. The practice of making provision on the basis of actuarial valuation was followed till 1974 and discontinued thereafter. The shift from the actuarial basis to requirement basis was not being disclosed in the financial statements.

3.4.3 Revenue recognition

Income is recognized as revenue whenever the organization delivers its product or performs service. A commercial organization needs to clearly spell out its revenue recognition policies followed in the preparation of financial statements.

Railway Rules provide for advance booking of passenger tickets for future journeys (as of now it is three months in advance) on rail network. In addition, carriages of goods also involve payment of freight charges in advance. IR recognized both the entire income earned and received during the year as well as the income earned but not received during the financial year. It also recognized revenues collected during the financial year for which services have not been provided during the year (advance fare and freight charges). This was contradictory as IR was accounting the unrealized income as revenue for the year and the income received in advance was also treated as revenue for that year. On account of this, the revenue for the year remained overstated and current liabilities stand understated as the services were yet to be rendered.

The matter was taken up with IR in December 2010. IR in its reply, in January 2011, stated that this chapter basically suggested the accounting requirements as per the Company's Act, which were not applicable to IR. The accounting policies, procedure and financial statements of IR are prescribed in IR Accounts Code, which were being followed /prepared accordingly. Thus, Audit evaluation of the financial statements should be done with reference to the rules/standards applicable thereto. IR, further, stated that GASAB was examining adoption of accrual based commercial accounting system in Government accounting. Therefore, till such time decision was taken by the Government for adoption of accrual concept in Government budgeting and accounting, it would not be possible for IR to deviate from the existing system.

The reply of IR is not acceptable. IR Accounts Code provide that the Government owned railways in India are a departmental Commercial Undertaking. IR accounts should, therefore, follow the essential requirements of commercial accounting besides conforming to the practices of Government accounting. Moreover, audit recommendations are on the *pro forma* accounts which are kept outside the normal Government accounts.

Thus, any change for greater transparency in reporting either by way of disclosures of significant accounting policies, notes and schedules or depiction of financial transactions in a manner which conforms to the generally accepted commercial practice would not affect the presentation of the cash based Government accounts of IR.

3.5 Accounting Reforms

IR had taken up a project on Accounting Reforms for implementation of practices which are in line with commercial accounting and reporting. In February 2006, a consultancy contract was awarded to a consortium headed by M/s S.F. Ahmed & Co., Bangladesh with M/s Ernst & Young lead partner to make recommendations on accounting reforms. The scope of the projects envisaged restructuring of existing budgets and accounting system to support existing management information systems, generate the data of revenue and cost to assess the profitability of different business operations of IR and to produce financial statements meeting all the commercial reporting requirements. The project with an estimated cost ₹ 18.31 crore was funded by Asian Development Bank (ADB) and was to be completed in 30 months. Consultants had submitted their Final Report in July 2010. The Report was still to be accepted by IR (January 2011). The project, on which ₹5.83 crore so far (November 2010) had been incurred was already delayed by over 29 months (January 2011).

IR in its reply of January 2011 stated that consultants had given their report and it was under consideration. However, fact remained that consultant delayed the submission of the report. IR was still to accept the said report (January 2011).

3.6 Comments on Accounts

Errors and omissions in the Accounts, affecting the balance sheet and profit and loss account of IR for the year 2009-10 are discussed on next page:

3.6.1 Transaction affecting the Balance Sheet

(a) Transfer of balance from Capital Fund to Development Fund

Based on the recommendations of the Railway Convention Committee, Development Fund (DF) was created on 1 April 1950 to meet the expenditure on passenger and users amenities, labour welfare works, safety works and unremunerative operative improvements works. This fund was to be financed out of the “Excess of net revenue surplus” left after meeting the dividend liability. Railway Convention Committee also recommended that whenever, the ‘Excess’ is not sufficient, the railways may borrow money from the general

revenues. The money borrowed, together with the interest thereon, has to be repaid in subsequent years.

Capital Fund (CF) was created in 1992-93 on the recommendations of the Railway Convention Committee (1991) to finance part of the requirement for work of a capital nature. The balance of the 'Excess', after providing for appropriation to DF, is appropriated to the CF. Transfer of balance from CF to DF and vice versa is not permissible.

The closure of the accounts for 2009-10, revealed a negative balance of ₹780 crore under DF. IR, on 22 July 2010, to get rid of this negative balance, transferred an amount of ₹725 crore from available balance under CF to DF through a correction in the accounts. The action of IR was against the mandate of the Railway Convention Committee as well as the principle for creation of these Funds. IR in response to audit observations, in September 2010, stated that both the DF and the CF received appropriation from "Excess". Taking loan from general exchequer for one fund when the other had sufficient balance was not financially prudent, as it meant an additional interest burden of about 1.5 *per cent* at the current rate. IR further stated that they had not anticipated this contingency and hence it was not specifically covered in the memorandum to Railway Convention Committee for creation of CF and would be included in the next Memorandum for 2010-11. The fact remained that transfer of balance from one Fund to another was against the laid down principle of maintaining and operating these Funds. Thus, the balances in the reserve funds as appearing in the balance sheet did not present a fair view as these were arrived against the laid down provisions. IR, instead of making a practice of transferring balances from one Fund to another, should be more realistic in its estimates so as to avoid such occurrence in future.

(b) Defined Contributory Pension Scheme

Instructions issued by Ministry of Finance, in March 2008, regarding transferring the accumulated amount of Defined Contributory Pension Scheme (DCPS) to Trustee Bank, inter-alia provide that no interest would be given by the Government on accumulation under DCPS after March 2008. In September 2008, Ministry of Finance instructed that contribution from employees and Government should not be parked under Major Head 8342 even as a temporary measure for making payment to Trustee Bank. It was, however, seen that IR, as on 31 March 2010, still kept an amount of ₹50.32 crore under Major Head 8342- awaiting transfer to Trustee Bank. In response to the audit observations, IR (November 2010 and January 2011) stated that in some cases delay was due to deficiencies in employee data. Necessary instructions had already been issued and system would be stabilised in 2010-11. Delay in transfer of the amount collected towards Defined Contributory

Pension Scheme to Trustee Bank would attract liability towards interest to the beneficiaries of the scheme. This clear liability had not been depicted in the balance sheet. The quantum of this liability could not be assessed for want of details.

(c) Non-transparency in Accounts

IR had also given loans and advances to PSUs/JVs apart from undertaking investments in equity. In 2009-10 following loans and advances had been given by IR to PSUs/JVs

- ₹297.38 crore given as loan to Konkan Railway Corporation Limited (KRCL)
- ₹564.86 crore to Rail Vikas Nigam Limited (RVNL) as project advance for construction of rail projects.
- Expenditure aggregating ₹141 crore incurred up to 31 March 2002 on gauge conversion of Hassan-Mangalore section was to be converted and treated as subordinate debt/unsecured debt payable by the Hassan-Mangalore Rail Development Corporation Limited (HMRDC) to IR.

However, these loan/advances had been depicted either under the head 'Miscellaneous Advance (Capital)' which was meant for temporary booking of expenditure (KRCL) or 'Investment in Government PSUs' meant for investments in equity (RVNL) or Plan-head 'Gauge Conversion' meant for recording expenditure incurred by IR in Gauge Conversion projects (HMRDC).

Though these transactions were included in the total block assets of IR, their categorisations as mentioned above was not correct. These transactions should have been distinctly depicted as 'Loans and Advances' in the accounts and balance sheet of IR.

IR in response to audit observation stated (January 2011) that different sub headings under block account, bifurcating debtors, inventories, investments etc as required by audit could be introduced in the balance sheet. Transactions like advances, loans and investments etc should be depicted under the proper headings in block accounts and balance sheet for better presentation and understanding of financial statements.

3.6.2 Transactions affecting the Profit and Loss Accounts

(a) Reimbursement of operating losses on Strategic Lines

Working losses on Strategic Lines, up to 2005-06, were deducted from the dividend payable to general revenues. This accounting practice was discontinued thereafter and these losses are now being reimbursed by Ministry

of Finance and accounted for as 'Sundry Receipts' in the books of IR. In Northeast Frontier Railway (NEFR) five sections³⁵ were also considered as Strategic Lines without any notification and operational losses on these strategic lines were also being reimbursed by Ministry of Finance. IR could not justify the inclusion of these five additional sections under Strategic Lines. The issue was taken up with IR in August 2008, August 2009 and again in August 2010. The incorrect receipt of reimbursement of losses on these five sections under strategic lines could not be worked out for want of details. Thus, the earnings as reflected in the profit and loss accounts had been overstated to that extent.

IR in response to audit observations stated (January 2011) that necessary action was being taken to get the specific notification issued for these sections as strategic lines. Though IR accepted the audit view, the required notification was still to be issued (January 2011).

(b) 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 should be paid in full and exemption from dividend should be recorded as "Subsidy Received from General Revenues" under 'Miscellaneous Receipts' in the accounts of IR. Thus, any unjustified deferring of dividend on New Lines would result in unjustified claim and receipt of subsidy of the equivalent amount in the books of IR.

Contrary to these provisions, zonal railways had deferred the dividend on New Lines in 2009-10³⁶ despite their opening to traffic for more than five years. Hence claim and receipt of subsidy of ₹133.45 crore in 2009-10 was incorrect.

Besides, dividend on the part sections of four New Lines though opened to traffic more than five years ago was also being deferred³⁷. The amount of deferred dividend and subsequent receipts of subsidy on these part sections could not be worked out for want of proportionate capital cost.

IR in response to audit observations, in October 2010 and again in January 2011 stated that matter was referred to the concerned zonal railways, adjustments of subsidy, if any, would be carried out in the account for 2010-11. However, despite assurance given for adjustment of incorrect claim of subsidy of ₹ 68.47

³⁵ Rangapara-Tezpur; Balipara-Bhulukpong; Samuktala-New Baongaigaon (Double Line); New Jalpaiguri-Ambari Falakata (Double Line) and Siliguri Jn.-New Jalpaiguri

³⁶ South Western Rly (2 New Lines-Rs` 14.61 crore), North Central Railway (2 New Lines-` 38.57 crore), East Coast Railway (4 New Lines-` 68.95 crore) and Western Railway (2 New Lines -` 11.32 crore)

³⁷ South Central Railway (one), Northern Railway (two) and Eastern Railway (one).

crore in 2008-09 by East Coast Railway, no adjustment was done in 2009-10. Thus, accounting of subsidy of ₹133.45 crore in the Account of 2009-10 (excluding the subsidy on the part sections of New Lines opened to traffic for more than five years) had overstated the earnings of IR to that extent.

Accounts for 2010-11 are still to be closed. IR needs to adjust the excess receipt of subsidy in 2008-09 and 2009-10 in the accounts of 2010-11.

(c) Claim of Subsidy on Uneconomic Branch Lines

In accordance with the recommendations of the Uneconomic Branch Lines Committee appointed in 1969, following type of lines, for the purpose of examination of viability should be treated as Branch Lines:

- Broad Gauge and Metre Gauge lines joined to the main system at one end only, and
- All Narrow Gauge Lines

It was also recommended that chord lines or parts of chord lines other than Narrow Gauge lines need not be considered as Branch Line from the point of view of economic viability.

As per recommendations of the Railway Convention Committee, capital-at-charge of un-economic branch lines is qualified for relief from payment of dividend. Thus, the amount equivalent to the dividend paid on such branch lines is received back as 'Subsidy' and recorded as 'Miscellaneous Receipts' in the accounts of IR. A check of subsidy received by IR on un-economic branch lines in 2009-10 revealed that the Zonal Railways³⁸ claimed and received subsidy of ₹2.24 crore on the lines which neither fall under the category of a branch line nor incurring losses. This also overstated the earnings of IR for 2009-10 by ₹2.24 crore.

IR in response stated (January 2011) that the matter was referred to concerned zonal railways and necessary adjustment, if any, would be carried out in the account in hand. Accounts for 2010-11 are still to be closed. IR needs to adjust the excess receipt of subsidy in 2008-09 and 2009-10 in the accounts of 2010-11.

3.6.3 Other Miscellaneous Transactions

(a) Railway Safety Fund (RSF) was specially created in 1 April 2001 for financing works relating to conversion of unmanned level crossings and for construction of Railway Over/Under bridges at busy level crossings. This Fund is financed through transfer of funds by Central Government from the

³⁸ South Western Railway (one line – ₹0.45 crore), North Western Railway (4 branch lines- ₹1.05 crore), Northern Railway (2 branch lines – ₹ 0.06 crore), and East Coast Railway (one branch line – ₹ 0.68 crore)

Central Road Fund (out of diesel cess). Despite availability of an exclusive fund under RSF, IR, in 2009-10, had provided budget of ₹241.64 crore and incurred an expenditure of ₹92.90 crore on road safety works from capital, i.e. dividend bearing capital financed from general budget. Execution of Road Safety works from dividend bearing capital had resulted in avoidable payment of ₹3.25 crore as dividend to general revenues in 2009-10. Payment of avoidable dividend on this capitalized expenditure would be an annual recurring feature.

IR, in response to audit observation, in September 2010 and January 2011, stated that an amount of ₹241.64 crore was provided by Ministry of Finance from general exchequer as additional budgetary support for works relating to road safety in addition to ₹958.36 crore as IR's share from cess on Motor Spirit and diesel. The fact, however, remained that incurrence of expenditure on Road Safety Works from dividend bearing capital despite availability of fund under RSF resulted in recurring burden on IR in the shape of payment of dividend to general revenues.

(b) IR is levying a number of surcharges/charges like Development Surcharge, Terminal Charge, Busy Season Surcharge and Congestion Charge on the base passenger fare and freight charges for goods, parcel and/or luggage. Audit in paragraph no.1.3 of Report on Union Government (Railways) No. 19 CA of 2008-09 had commented that accounting of these surcharges/charges was not transparent as these charges were recorded as the normal fare and freight in the accounts of IR. In response, IR stated (August 2010) that there was no need for separate accounting of Development charge on passenger fare as it was subsumed with passenger fare. So far as goods traffic is concerned IR stated that with the completion of ongoing computerisation of freight traffic {Freight Operation Information System (FOIS)}, all such information would be available for record and reference. IR also stated (January 2011) that capturing of data of these charges for booking and refunds separately, in the present scenario where all activities were not fully computerised would be enormous and efforts and costs thereof would not be commensurate with the results achieved. IR further stated that audit suggestion would be implemented after complete computerisation. Till such time data available on computerised bookings would be available for Management Information System (MIS) purpose.

Information provided by IR revealed that ₹3,412 crore in 2007-08, ₹4,013 crore in 2008-09 and ₹4,972 crore in 2009-10 were collected as supplementary charges on passenger and freight traffic. The information given by IR was sourced from Passenger Reservation System and computerised freight booking where FOIS had been implemented. It did not cover the entire traffic of passenger and freight service. Even after completion of computerisation for recording these supplementary charges, the availability of information would be

restricted only to the management and not to the readers of the financial statements. Since substantial amount is being collected over and above the base fare and freight, IR needs to depict these charges separately in the Accounts in the interest of transparency for which necessary action needs to be taken.

3.7 Conclusion and Recommendations

IR is a Government Commercial Undertaking. However, its proforma accounts (Balance Sheet and Profit and Loss Account) did not disclose significant accounting policies used for preparation of these proforma accounts. Its balance sheet had not followed the generally accepted principles of commercial accounting in presenting fixed assets, investments, inventories, clear and contingent liabilities. Its profit and loss accounts recognized revenue collected during the financial year for which services had not been provided during that year. Accounting Reforms project taken up by IR had been delayed by 29 months.

Recommendations

- *IR should disclose the significant accounting policies that are being followed in the preparation of the financial statements. The schedules and explanatory notes on all major items of the balance sheet and profit and loss account should be incorporated for better presentation and understanding of proforma accounts.*
- *Generally accepted commercial accounting principles in respect of accounting of fixed assets, investments, inventories, sundry debtors and clear liabilities need to be followed. Disclosure of contingent liabilities should also be made.*
- *Profit and loss account should depict income earned and expenditure incurred pertaining to the financial year. IR should clearly disclose its policy on provision for depreciation and pension.*
- *Standards based financial reporting is essential for improved public accountability and, in fact, for the efficient and effective functioning of the system. To ensure transparency in reporting and proper presentation of financial statements, IR should prepare a road map to pace up the process of transition towards a system of accrual based general purpose financial reporting.*