

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 comprising of 15 Revenue Grants¹⁷ (Grants number 1 to 15) and one Capital Grant¹⁸ (Grant No. 16). Revenue grants were financed through the internal resources generated by the IR through its earnings during the year, the Capital grant was funded mainly through the budget, internal resources and share of diesel cess from Central Road Fund.

Appropriation Accounts (Railways) for the sums expended during the year ended 31 March 2012, compared with the sums authorized in the Original and

¹⁷ Grants detailing working expenses and other revenue expenditure as voted by Parliament.

¹⁸ Grant detailing expenditure on Assets Acquisition, Construction and Replacement voted by Parliament

Supplementary Demands for Grants for expenditure and passed under Article 114 and 115 of the Constitution of India are summarized in table 2.1.

Table 2.1- Summary of Appropriation Accounts 2011-12

(₹ in crore)

	Original Grant/ Appropriation	Supplementary Grant	Total Sanctioned Grant	Actual Expenditure	Saving (-) / Excess (+)
Voted					
Revenue	1,26,582.63	3,926.94	1,30,509.57	1,26,100.20	(-)4,409.37
Capital	70,697.27	3,714.11	74,411.38	68,636.12	(-)5,775.26
Total Voted	1,97,279.90	7,641.05	2,04,920.95	1,94,736.32	(-)10,184.63
Charged					
Revenue	161.78	3.19	164.96	155.12	(-)9.84
Capital	60.00	67.07	127.07	105.64	(-)21.43
Total Charged	221.78	70.26	292.03	260.76	(-)31.27
Grand Total	1,97,501.67	7,711.31	2,05,212.98	1,94,997.08	(-)10,215.9

The above table lists out the total expenditure of IR as ₹1,94,997.08 crore during the financial year 2011-12, of which nearly 64.75 per cent was spent on revenue grants which include working expenses on administrative, operational and maintenance activities while 35.25 per cent was spent on capital grant dealing with creation and augmentation of infrastructure facilities through Assets Acquisition, Construction and their Replacement/Renewal. The above table also indicates savings of 2.15 per cent (₹ 4,419.21 crore) under revenue grants and 2.82 per cent (₹ 5796.69 crore) under capital grant against the sanctioned provisions available in 2011-12.

An analysis of grant-wise expenditure revealed that the net saving of ₹ 10,215.90 crore was a result of savings of ₹13,384.74 crore under thirteen revenue grants, five segments of capital grant seven revenue appropriation¹⁹ and five segments of capital appropriation, adjusted by an excess of ₹3,168.84 crore in three revenue grants, two segments of capital grant and four revenue appropriations as are shown in Appendix-2.1.

2.1.1 Revenue Grants

IR operates 15 Revenue Grants. These are functionally clubbed under six distinct groups as listed in table 2.2:-

Table 2.2- Grants operated by Railways

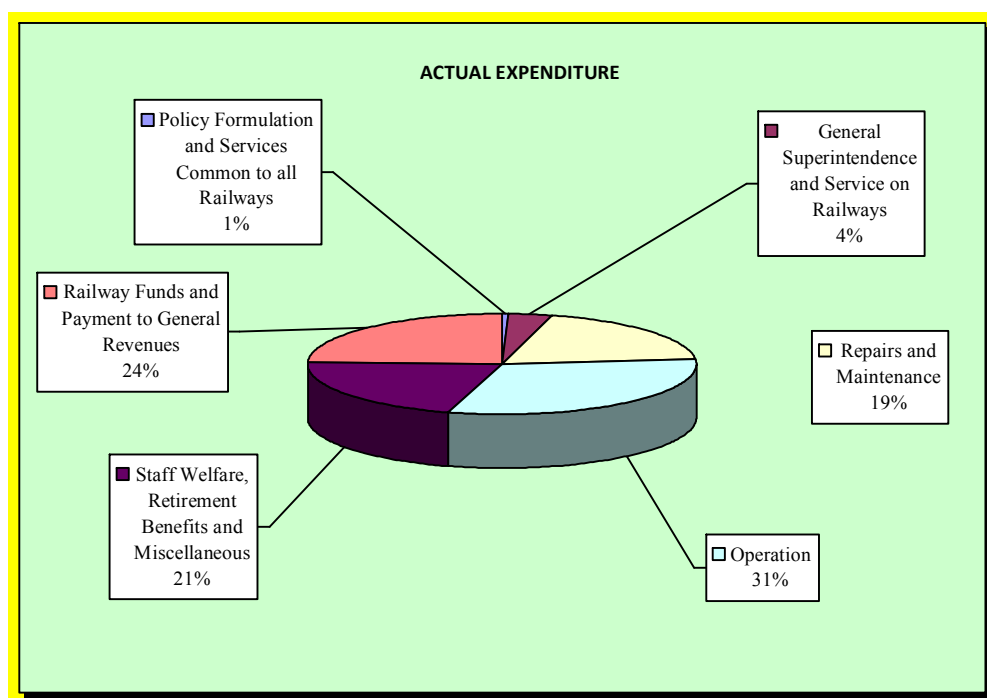
No.	Particulars	Six Distinct Group
1	Railway Board	Policy Formulation and Services Common to all Railways
2	Miscellaneous Expenditure	
3	General Superintendence and Service on Railways	General Superintendence and Service on Railways
4	Repairs and Maintenance of Permanent Way and Works	Repairs and Maintenance
5	Repairs and Maintenance of Motive Power	

¹⁹ Appropriation refer to expenditure charged on Consolidated Fund of India

6	Repairs and Maintenance of Carriages and Wagons	Operation
7	Repairs and Maintenance of Plant and Equipment	
8	Operating Expenses-Rolling Stock and Equipment	
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	

Therefore, the group-wise expenditure, in 2011-12, would appear as pie diagram 2.1.

Diagram-2.1 Group wise Revenue Expenditure (2011-12)



Group-wise estimates, expenditure and variation under the revenue grants are detailed in table 2.3.

Table- 2.3 Group wise Estimates, Expenditure and Variation (2011-12)

(₹ 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	880.01	0.00	880.01	757.90	-122.11	-13.88
General Superintendence and Service on Railways	4,996.02	0.03	4,996.05	4,665.36	-330.69	-6.62
Repairs and Maintenance	24,763.62	195.14	24,958.76	24,201.03	-757.72	-3.04
Operation	37,061.22	2,230.00	39,291.22	38,999.07	-292.15	-0.74
Staff Welfare, Retirement Benefits and Miscellaneous	24,240.41	1,504.96	25,745.37	26,710.35	964.98	3.75
Railway Funds and Payment to General Revenues	34,803.31	0.00	34,803.13	30,921.61	-3,881.52	-11.15

The main reasons for variations with reference to sanctioned provisions are as under:

- **Indian Railways Policy Formulation**

Less expenditure incurred towards other charges such as foreign travel expenses, hospitality etc, non-execution or slow progress of certain survey works, non-finalization of tenders, less materialization of contractual payments, conducting of less number of examinations by Railway Recruitment Boards, slow progress of world class station works.

- **General Superintendence and Service on Railways**

Less expenditure incurred towards staff cost and contingencies, less receipt of legal bills, reduction in staff cost due to non filling of vacancies, reduction in quantum of honorarium paid to the employees.

- **Repairs and Maintenance**

Less expenditure incurred towards salary , wages and establishment charges, less procurement of non stock items, less sanitation work undertaken, materialization of less contractual payments, less direct purchases, less drawal of stores, less adjustment of wages and material on periodical overhaul, adjustment of less debits, less expenditure towards staff cost, less expenditure towards contingent expenses, less adjustment of workshop debits, less direct purchases for other repairs,

less expenditure on maintenance activities, less debits received, less/non-materialization of decretal payments than anticipated.

- **Operation**

Less expenditure towards staff cost, less drawal of consumable stores, less adjustment of stores debits, less expenditure towards procurement of stores, materialization of less contractual payments, less establishment charges and non-filling of vacancies, less expenditure on publicity charges, less payment of leasing charges other than IRFC, less expenditure towards Sales tax, Excise duty and other taxes/levies, adjustment of less debits, less expenditure on staff cost, less expenditure on cost of electricity used for traction services, less materialization of decretal payments than anticipated.

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

Adjustment of more debits and more expenditure towards compensation claims, more expenditure towards accident insurance and compensation, incurrance of more expenditure towards contractual payments to private caterers and clearance of outstanding bills of Indian Railway Catering and Tourism Corporation(IRCTC), more materialization of claims and adjustment of debits, receipt of more debits from pension disbursing authorities, more payment towards ex-gratia pension, receipt of more debits towards family pension due to revision of family pension cases, finalization of more cases of death-cum-retirement-gratuity, more expenditure towards leave encashment for pension optees, more expenditure towards deposit linked insurance scheme, materialization of more decretal payments than anticipated.

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

Savings in grant no. 14 – Less appropriation to DRF, lesser availability of excess to be appropriated in Development Fund and Capital Fund due to decline in internal resource generation. In grant no. 15 saving occurred as lowering of interest rate from 6 per cent to 5 per cent.

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 2.2.4 and 2.6.

2.2 Financial Accountability and Budget Management

2.2.1 Excess over Budget Provision

The table No. 2.4 gives the grants and appropriations where in expenditure was incurred in excess of authorized expenditure.

Table 2.4 Excess Expenditure

(₹ in crore)

S. No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Excess
Revenue- Voted					
1	<i>Grant No. 12–Working Expenses–Miscellaneous Working Expenses</i>	3,684.74	425.13	4,388.08	278.21
2	<i>Grant No. 13–Working Expenses–Provident fund, Pension and Other Retirement Benefits</i>	16,479.74	1,077.61	18,326.97	769.62
Revenue- Charged					
1	<i>Appropriation No. 3–General Superintendence and Services</i>	0.00	0.03	0.30	0.27
2	<i>Appropriation No. 13 – Working Expenses–Provident fund, Pension and Other Retirement Benefits</i>	0.50	0.09	0.63	0.04
	Total	20,164.98	1,502.86	22,715.98	1,048.14

The above mentioned grants and appropriations where excess expenditure occurred, supplementary provisions were obtained in all. Incurrence of excess expenditure despite obtaining supplementary grants indicated poor budgetary forecasting.

During 2011-12, the reasons of excess expenditure were due to adjustment of excess debits and additional expenditure towards compensation claims, excess expenditure towards accident insurance and compensation, incurrence of more expenditure towards contractual payments to private caterers including clearance of outstanding bills of Indian Railway Catering and Tourism Corporation (IRCTC), more materialization of claims vis-a-vis adjustment of debits, Receipt of more debits from pension disbursing authorities, more payment towards ex-gratia pension, receipt of more debits towards family pension due to revision of family pension cases, finalization of more cases of death-cum-retirement-gratuity, more expenditure towards leave encashment for pension optees, more expenditure towards deposit linked insurance scheme, materialization of more decretal payments than anticipated.

Public Accounts Committee (PAC) in its Sixty-fourth Report (15th Lok Sabha) on 'Excess over Voted Grants and Charged Appropriations (2010-11)' observed that incurring of excess expenditure under the Grants/Appropriations operated by the Ministry of Railways is a recurring phenomenon indicating serious flaws in the budgetary exercise. The Committee also observed that while anticipating the requirement of funds by the Railways, estimations for various Sub-Heads could have been projected more realistically by analysing properly the total monetary effect of salary hike, prevailing expenditure trail, upcoming demands/requirements rising cost etc. which was possible by putting in a little more effort. Ministry of Railways replies on PAC's observations are 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 Expenditure

There were persistent excess during 2009-10, 2010-11 and 2011-12 in the grant 13- Provident Fund, Pension and Other Retirement Benefits dealing with Staff Welfare, Retirement Benefits and Miscellaneous as in table 2.5.

Table 2.5 Persistent Excess Expenditure*(₹ in crore)*

S. No.	Name and Grant No.	Financial Year	Original Provision	Supplementary provision	Actual Expenditure	Excess
1	Grant No. 13 (Voted) – Provident Fund, Pension and Other Retirement Benefits	2009-10	14,265.29	1,133.52	16,911.20	1,512.39
		2010-11	14,417.50	531.24	16,352.71	1,403.97
		2011-12	16,479.74	1,077.61	18,326.97	769.62
2	Grant No. 12 (Voted) – Working Expenses- Misc. Working Expenses	2009-10	3,157.65	0	3,177.23	19.59
		2010-11	3,093.25	260.81	4,002.50	648.44
		2011-12	3,684.74	425.13	4,388.08	278.21
3	Appropriation No. 3 (Charged) – Working Expenses- General Superintendence and Services	2009-10	0.01	0.09	0.35	0.24
		2010-11	0.05	0.10	0.36	0.21
		2011-12	0.00	0.03	0.30	0.27

IR attributed the excess mainly to incurrance of additional expenditure on receipt of more debits from pension disbursing authorities, extra payment towards ex-gratia pension, receipt of more debits towards family pension due to revision of family pension cases, finalization of more cases of death-cum-retirement-gratuity, more expenditure towards leave encashment for pension optees, more expenditure towards deposit linked insurance scheme, due to adjustment of excess debits and additional expenditure towards compensation claims, excess expenditure towards accident insurance and compensation, incurrance of more expenditure towards contractual payments to private caterers including clearance of outstanding bills of Indian Railway Catering and Tourism Corporation (IRCTC), materialization of more decretal payments than anticipated,

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

2.2.3 Savings

There were aggregate savings of ₹ 10,973.65 crore. In eleven cases, as detailed in table 2.6, 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. 2-Miscellaneous Expenditure	683.03	0	561.40	-121.63
2	Grant No. 3-General Superintendence and Service on Railways	4,996.02	0	4,665.06	-330.96
3	Grant No. 4-Repairs and Maintenance of Permanent Way and Works	8,154.65	0	7,794.56	-360.09
4	Grant No. 7-Repairs and Maintenance of Plant and Equipment	4,672.96	0	4,421.00	-251.96
5	Grant No. 9-Operating Expenses-Traffic	13,324.23	116.10	13,293.48	-146.85
6	Grant No. 10-Operating Expenses-Fuel	17,288.48	1,692.31	18,846.06	-134.73
7	Grant No. 14-Appropriation to Funds (DRF, CF, DF,PF)	28,068.41	0	2,5265.57	-2,802.83
8	Dividend to GR	6,734.72	0	5,656.03	-1,078.69
9	Grant No. 16-CAPITAL	53,501.37	714.10	52,704.66	-1,510.81
10	Grant No. 16-Railway Funds	15,137.70	0.004	11,572.47	-3,565.23
11	Grant No. 16-Railway Safety Funds	1,998.40	0.002	1,328.53	-669.87

Reasons for savings were attributed to reductions in Revenue Grants due to non-execution/slow progress of certain survey works, non-finalization of tenders, reduction in materialization of contractual payments, conducting of less number of examinations by Railway Recruitment Boards, slow progress of world class station works, Incurrence of less expenditure towards staff cost and contingencies, non- receipt of legal bills, non-filling of vacancies, reduction in payment of honorarium, less procurement of non-stock items and withdrawal as well as procurement of stores, reduction in sanitation work undertaken, less expenditure on maintenance activities, reduction in direct purchases and debits received, less expenditure on publicity charges, minimize in payment of leasing charges other than IRFC, reduction in expenditure towards Sales tax, Excise duty and other taxes/levies, adjustment of less debits, and reduction in expenditure on cost of electricity used for traction services.

Reasons for saving in “Appropriation to Funds” were attributed mainly to less appropriation to DRF. Further, due to less availability of revenue surplus the appropriation under Development Fund and Capital Fund were not made as per Budget Estimate.

Grant No. 16-Capital, Railway Funds and RSF – Reasons for savings under these funds are given in succeeding para.

2.2.4 Persistent Savings

There were persistent savings of over ₹100 crore in following grants as shown in the table 2.7.

Table 2.7 Persistent Savings

		(₹in crore)				
S.No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1	<i>Grant No. 14 – Appropriation to Funds</i>	373.99	6,429.96	4,301.51	2,533.20	2,802.84
2	<i>Grant No. 16 – Capital</i>	789.47	537.20	2,020.71	760.50	1,510.81
3	<i>Grant No. 16 – Railway Funds</i>	1,634.35	1,723.38	2,815.59	861.94	3,565.24
4	<i>Grant No. 16 – Railway Safety Fund</i>	517.44	734.56	649.98	598.56	669.87

- **Grant No. 14 – Appropriation to Funds**

Savings, during 2007-08, 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 2008-11, 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 contribution to CF made as no money was left for appropriation during the year. In 2011-12, Appropriation to DRF has been curtailed by ₹403.31crore (i.e.5.76 per cent of BE) due to reduced internal resource generation and contribution to DF and CF made are ₹610.00 and ₹515.58 respectively which are 25.41 per cent and 18.04 per cent of BE of their respective funds as net surplus available for appropriation was only ₹1,125.58 crore.

- **Savings in Grant No.16-Capital and Railway Funds**

Savings were mainly attributed due to anticipated debits not materialized, land acquisition not completed/delay in land acquisition/delay in handing over of land by the State government, slow progress of work, less booking of expenditure than anticipated, New line work frozen by Railway Board, less materialization of contractual liabilities, expected Permanent Way work not materialized, slow progress of works related to Traffic facilities-Yard remodeling, less execution of computerization work, less procurement of Machinery and Plant items, non-finalization of tenders/proposals for staff quarters, slow progress of staff amenity works, less investment in non-government undertakings, revision in production programme, reduction in numbers of three phase locos.

Less materialization of contractual liabilities, slow progress of some works of traffic facilities-yard remodeling, delay in finalization of tender, non/late finalization of estimates/tenders of PRS works, slow of progress of computerization works, non receipt of expected material of receipt of railway research at RDSO, payment of capital component of leased assets not made from Capital Fund, less booking of expenditure that anticipated, materialization of less debits than anticipated, slow progress of works on passenger amenities, no investment in non-government undertakings.

- **Savings in Grant no.16- Railway Safety Fund**

Slow progress of road safety works, materialization of less contractual payments, non/less finalization of tenders/proposals, delay in land acquisition, adjustment of less debits and (for 2011-12) Slow progress of works, delay in acquisition of land, less contractual activities were the main reasons for persistent savings under RSF.

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

2.3 Supplementary Provisions

Supplementary provisions amounting to ₹ 3,926.94 crore were taken during 2011-12 in seven revenue voted grants (6, 8, 9, 10, 11, 12, 13). These were obtained mainly for higher maintenance activity under materials, contractual Payment, Transfer of Debit/Credit, higher payment of lease charges to IRFC, more expenditure on fuel to increase in traffic/process of fuel under diesel traction & electric traction. In grant no. 6,10,11,12 and 13, supplementary provisions of 42 per cent, 100 per cent, 100 per cent, 65 per cent and 76 per cent remained unutilized.

Supplementary provisions of ₹3.19 crore were obtained under charged appropriations to meet higher decretal payments than anticipated. However, the assessment of supplementary provisions under charged appropriations no. 3,4,10, 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.

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 (charged) segment of grant no. 16 had savings of ₹13.70 crore in 2011-12 (11.76 per cent of total budgetary support received), out of which ₹ 0.32 crore was surrendered on 31 March 2012, depriving Government of India of the

opportunity of utilising these funds for other departments by correspondingly reducing gross budgetary support for IR.

There were a number of cases of surrender as shown in the table 2.8:-

Table 2.8 Surrenders under various Grants

(₹ in crore)

Grants	V/C	Original	Supplementary	Total provision	Actual exp	Net variation	Surrender
2	V	683.03	0	683.03	561.40	121.63	-81.74
3	V	4,996.02	0	4,996.02	4,665.06	-330.96	-257.92
4	V	8,154.65	0	8,154.65	7,794.56	-360.09	-264.64
5	V	3,661.16	0	3,661.16	3,599.82	-61.34	-7.29
7	V	4,672.96	0	4,672.96	4,421.00	-251.66	-96.62
14	V	28,068.41	0	28,068.41	25,265.57	-2,802.84	-3,606.26
RAILWAY FUNDS	V	15,137.70	0	15,137.70	11,572.47	-3,565.23	-4,732.30
RSF	V	1,998.40	0	1,998.40	1,328.53	-669.87	542.23
OLWR	V	59.80	0	59.80	30.46	-29.34	8.24
12	C	159.01	0	159.01	152.12	-6.89	4.36
RAILWAY FUNDS	C	8.80	0	8.80	2.34	-6.46	-4.94

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 provide²⁰ 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 Statement²¹ (FMS). Summary of railway-wise grant accounts (grant no.3 to 13) is given in *Appendix-2.2*.

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

- In 94 cases, funds were surrendered through FMS by zonal railways in excess of availability.
- In 9 cases, zonal railways surrendered funds through FMS despite expenditure exceeding the sanctioned allocations.
- In 6 cases, zonal railways, through FMS, surrendered 50 *per cent* or more of the supplementary provisions allocated to them. It included 2 cases, where 100 *per cent* of the supplementary provisions allocated to them were surrendered.

²⁰ Paragraph 376 of Indian Railways Finance Code enumerates the powers of re-appropriation of funds

²¹ 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 jag end of the year.

- In 27 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 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,
- **Railway Funds**-internal resources kept under three different reserves²²,
- **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.

Segment wise allocation and expenditure is given below:

Table 2.9 Segment wise Expenditure under Grant No. 16

(₹ in crore)

Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
Voted Portion					
Capital	53,501.37	714.10	54,215.47	52,704.66	(-)1,510.81
Railway Fund	15,137.70	0.004	15,137.70	11,572.47	(-) 3,565.23
Railway Safety Fund	1,998.40	0.002	1,998.40	1,328.53	(-)669.87
Open Line Works – Revenue	59.80	0.00	59.80	30.46	(-) 29.34
Loan to Railway Development Fund	0.00	3000*	3000	3000	0.00
Total Voted	70,697.27	3,714.11	74,411.38	68,636.12	(-) 5,775.26
Charged Portion					
Capital	49.4	67.07	116.47	102.77	(-)13.70
Railway Fund	8.80	0.00	8.80	2.34	(-) 6.46
Railway Safety Fund	1.60	0.00	1.60	0.53	(-) 1.07
Open Line Works – Revenue	0.20	0.00	0.20	0.00	(-) 0.20
Total Charged	60.00	67.07	127.07	105.64	(-) 21.43

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

- **Capital**

In 2011-12, provision of ₹ 53,501.37 crore was made for acquisition and construction of assets. Additional budgetary support of ₹ 3,714.10 crore was received through supplementary grant under Capital (Voted) includes (i) loan of ₹3,000* crore towards Development Fund being extended to MoR by Central Government during 2011-12 under ‘Major Head-7002- Railways-Minor Head 202-Loan to Railway Development Fund’ which is meant for appropriation to the Railway Development Fund and will cover the negative balance in the fund and also enable funding essential safety related works in 2011-12 and (ii) ₹714.10 crore to meet additional requirement under plan expenditure. This entire supplementary provision was utilized on payment of leased Assets –Payment of Capital Component (2200) and Rolling stock (2100).

There was a net savings of ₹1,510.81 crore, against the sanctioned provision, in this segment of the grant. Savings were attributed to anticipated debits not materialized, land acquisition not completed/delay in land acquisition/delay in handing over of land by the State government, slow progress of work, less booking of expenditure than anticipated, New line work frozen by Railway Board, less materialization of contractual liabilities, expected Permanent Way work not materialized, slow progress of works related to Traffic facilities-Yard remodeling, less execution of computerization work, less procurement of Machinery and Plant items, non-finalization of tenders/proposals for staff quarters, slow progress of staff amenity works, less investment in non-government undertakings, revision in production programme, and reduction in numbers of three phase locos.

- **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 in table in 2.9.

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	9,038.70	0.002	9,038.70	9,349.40	310.70
Development Fund	2,399.00	0.002	2,399.00	2,223.06	(-)175.94
Capital Fund	3,700.00	0.00	3,700.00	0.00	(-)3,700.00
Total Voted	15,137.70	0.004	15,137.70	11,572.47	(-)3,565.24
Charged Portion					
Depreciation Reserve Fund	6.20	0.00	6.20	1.12	(-)5.08
Development Fund	2.60	0.00	2.60	1.22	(-)1.38
Capital Fund	0.00	0.00	0.00	0.00	0.00
Total Charged	8.80	0.00	8.80	2.34	(-)6.46
Total Voted and Charged	15,146.50	0.004	15,146.50	11,574.81	(-) 3,571.70

Analysis of this segment of grant revealed there were net savings (under voted) of ₹3,565.24 crore (23.55 per cent of the sanctioned grant).

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

- **DRF-** Excess expenditure of ₹310.70 (3.44 per cent) occurred against the sanctioned provisions of ₹9,038.70 crore.
- **DF-** Expenditure of ₹2,223.06 crore was incurred against the provision (voted) of ₹2,399 crore resulting in savings of ₹ 175.94 crore.
- **CF-** There was a saving of ₹3,700 crore (100 per cent) of the sanctioned grant as well as supplementary grant of ₹3,700 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. 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. 49 per cent of the originally allocated funds of ₹59.80 crore were not utilized. The savings were attributed to slow progress of works, delay in finalization of tenders, materialization of less contractual payments,

less receipt of debits, related to computerization/railway research, non/delayed finalization of tenders.

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 2012

(₹ in crore)

Fund	Particulars	2009-10	2010-11	2011-12
DRF	Appropriation to Fund(BE)	5,425.00	7,700.00	7,100.00
	Appropriation to Fund(Actual)	2,287.00	5,615.00	6,720.00
	Excess/Shortage	(-)3,138.00	(-)2,085.00	(-)380.00
	Expenditure/withdrawal from fund	5,731.19	5,585.12	6,680.72
DF	Appropriation to Fund(BE)	2,000.00	2,800.00	2,400.00
	Appropriation to Fund(Actual)	0.75	1,404.90	610.00
	Excess/Shortage	(-)1,999.25	(-)1,395.10	(-)1,790.00
	Expenditure/withdrawal from fund	3,141.48	2,576.59	2,222.56
CF	Appropriation to Fund(BE)	642.26	373.09	285.41
	Appropriation to Fund(Actual)	-	-	515.57
	Excess/Shortage	(-)642.26	(-)373.09	(-)2,342.84
	Expenditure/withdrawal from fund	3,282.74	3,329.85	0
Total (Railway Funds)	Appropriation to Fund(BE)	8,067.26	10,873.09	12,358.41
	Appropriation to Fund(Actual)	2,287.75	7,019.90	7,845.57
	Excess/Shortage	(-)5,779.51	(-)3,853.19	(-)4,513.04
	Expenditure/withdrawal from fund	12,155.41	1,1491.56	8,903.28

From the above, it is seen that the appropriation to the funds 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 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 Restoration of Dismantled lines-Plan Head-1300(₹11.54 crore- 23 per cent²³), Gauge Conversion works- Plan Head-1400 (₹2,154 crore-380 per cent), Doubling projects- Plan Head-1500 (₹944.33 crore-925.80 per cent), Rolling Stock - Plan Head-2100(₹1,487.33 crore-2974.66 per cent), leased assets- Plan Head-2200(₹2,776 crore-418 per cent), other electrical works- Plan Head-3600(₹22.59 crore-29.72 per cent), and investment in Government commercial Undertaking- Plan Head-6200 (₹750 crore-3947.37 per cent).

Non-utilization and surrender of funds were noticed in the plan heads New Line Construction- Plan Head-1100- (₹2,032.55 crore-28.44 per cent), Traffic Facility-Yard Remodelling and others- Plan Head-1600-(₹10.62 crore-3.58 per cent), Computerization- Plan Head-1700-(₹65.42 crore-78.06 per cent), Bridge Work- Plan Head-3200-(₹18.71 crore-34 per cent), Machinery and Plant- Plan Head-4100-(₹26.67 crore-22 per cent), Metropolitan Transport Project- Plan Head-8100-(₹5,457.27 crore-83.96 per cent).

➤ 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 New Line Construction - Plan Head-1100-(₹1.51 crore-100 per cent), and Bridge Work - Plan Head-3200-(₹30.42 crore-11.12%).

Heavy surrenders and non-utilization of funds were noticed in plan heads dealing with Gauge Conversion- Plan Head-1400-(₹37.90 crore -75.8 per cent), Doubling- Plan Head-1500 (₹10.00 crore-76.92 per cent), Computerization- Plan Head-1700- (₹105.53 crore- 41.88 per cent), Railway research- Plan Head-1800-(₹32.28 crore -46 per cent), Bridge works - Plan Head-3200-(₹ 30.42 crore-11.12 per cent).

Non-utilization and surrender of funds under OLWR were noticed in the eight plan heads out of 11 plan heads. Non-utilization and surrender of funds were mainly in Traffic Facility-Yard Remodelling and others- Plan Head-1600-(₹12.12 crore-80.82 per cent), Computerization- Plan Head-1700-(₹ 3.78 crore-55.65 per cent), Signal and Telecommunication - Plan Head-3300-(₹1.42 crore-71.27 per cent).

➤ Non-utilization and surrender of funds were also noticed under RSF in Road Safety- Unmanned crossing -2900-(₹227.89 crore-28.49 per cent), and Road

23 Percentage was with reference to sanctioned grant.

Safety –Over Bridge/Under Bridge- Plan Head-3000-(₹ 314.33 crore-26.23 per cent).

Large scale changes in priorities and re-appropriation of originally allocated resources from one plan head to another or from one Zonal railway to another Zonal railway were indicative of the lack of reliability in preparation of budgetary estimates for assets acquisition, construction and replacement/renewal. This affected the long term advance planning of construction and acquisition of assets and also schedules of completion of works/projects.

To sum up the analysis of the capital grant revealed

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

2.7 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 2011-12 – 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 ₹5.54 crore pertaining to revenue heads of account was misclassified to capital heads of account and ₹15.88 crore from capital heads of account to revenue heads of account thereby understating the capital expenditure to the extent of ₹ 10.34 crore. Further, a number of cases of mistake in accounting as well as misclassification under Revenue and Capital grants were noticed.

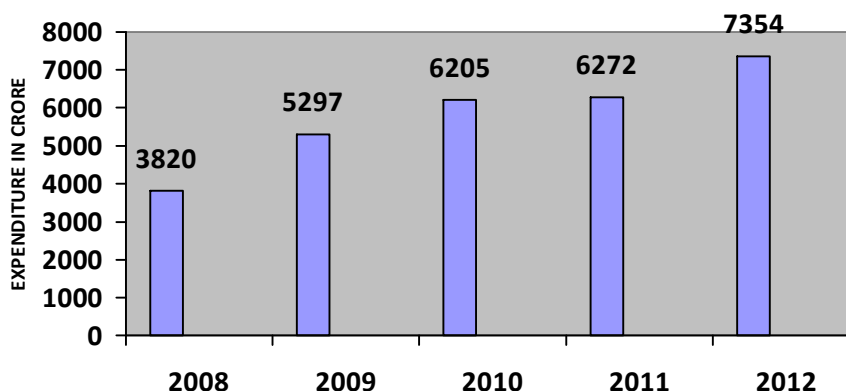
The Public Accounts Committee (PAC) in its Sixty-fourth Report (15th Lok Sabha) deplore that unabated trend of persistent misclassification of expenditure has reached endemic proportion and they have repeatedly failed to address and eliminated such fundamental flaw. Apparently, no tangible action has been taken by the Ministry either to fix responsibility for avoidable errors or for rectifying the terminological ambivalence leading to misclassification.

2.8 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 ₹6,205 crore as of March 2010 , ₹6,272 crore as of March 2011 and ₹7,354 crore as on 31 March 2012. Unsanctioned expenditure as of 31 March 2012, included ₹ 6,205 crore (84 per cent) related to items which were more than two years old.

Diagram-2.9 Unsanctioned Expenditure



Increasing trend of unsanctioned expenditure indicated the inaction on the part of the administration to get the unsanctioned expenditure regularised.

2.9 Conclusions 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 inadequate exercise in preparation of budget by IR. The Committee had also repeatedly taken a serious view of the recurring instances of misclassification of expenditure.

The Public Accounts Committee (PAC) in its Sixty-fourth Report (15th Lok Sabha) deplore that unabated trend of persistent misclassification of expenditure has reached endemic proportion and they have repeatedly failed to

address and eliminated such fundamental flaw. Apparently, no tangible action has been taken by the Ministry either to fix responsibility for avoidable errors or for rectifying the terminological ambivalence leading to misclassification.

Increasing trend of unsanctioned expenditure may be controlled and the administration to get the unsanctioned expenditure regularised.

Recommendations

The Public Accounts Committee (PAC) in its Sixty-fourth Report (15th Lok Sabha) issued certain guidelines to the MoR which were based on the previous audit report. Therefore, the audit recommendations interelia include the directions of the PAC also.

PAC recommendations

➤ *It is recommended that the Ministry of Railways strive earnestly for ensuring realistic estimation of their budgetary requirements under various sub-heads of the Grants/Appropriations operated by them so that the existing lapses/loopholes are identified and concrete remedial measures taken to obviate excess expenditure.*

➤ *It is also recommended that the existing budgetary mechanism in the Railways needs to be thoroughly reviewed and revamped so that necessary corrective action, whenever warranted, could be taken to overcome systemic lacunae/loopholes for progressive elimination of misclassification syndrome. Further, responsibility be fixed for each patent misclassification so that there is greater caution and due diligence in classification of expenditure in future.*

Audit recommendations

➤ *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.*

➤ *IR should also explore a mechanism for estimates of supplementary grants more realistically so as to ensuing fiscal discipline.*

➤ *Increasing trend of unsanctioned expenditure to be controlled; administration to ensure all unsanctioned expenditure are regularised on priority.*

