Chapter-3 Budget Formulation and Financial Management in Indian Railways

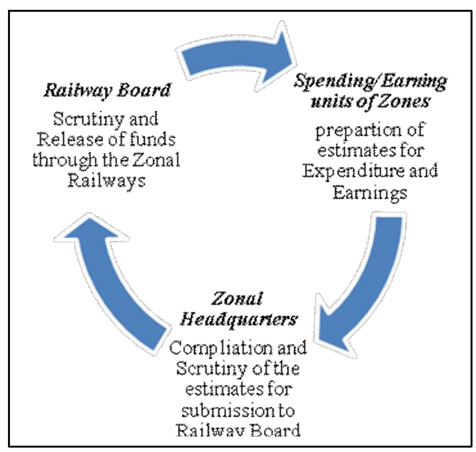
3.1 Introduction

The budget is the Government's key policy document of all planned revenue and capital expenditure. Budget is necessary for planning, decision making and judicious allocation of resources. In Indian Railways (IR), the Railway Budget is presented by the Minister for Railways to both Houses of Parliament separately from and ahead of the General Budget. The Railway finances were separated from the general finances of the government through a 'Separation Convention' in 1924 as per the recommendations of the Acworth Committee[24]. Though the Railway Budget is separately presented to Parliament, the figures relating to the receipts and expenditure of the Railways are a part of the total receipt and expenditure of the Government of India.

A study on the process of preparation of Budget and Financial Management including existing system of internal controls was conducted to obtain an assurance that the rules and regulations governing the formulation of budget were complied with and an effective Internal Control Mechanism exists for reliable financial reporting and adequate assurance provided for compliance on the subject.

The study covered the period 2009-12 with a representative sample[25] consisting of maximum of two Divisions and one Workshop from each zone. The study also covered the traffic accounts office of each Zonal Railway in addition to examination of documents relating to preparation of Budget at Railway Board level. **(Appendix 3.1)**

3.2 Budget Preparation



The process of preparation of Budget commences at the field unit level[26]. The field units prepare estimated Revenue and Capital Expenditure under different heads which forms the base for forecasting the requirement of funds for the concerned year say current year (Revised Estimate) and ensuing year (Budget Estimate). Similarly, the revenue earning units forecast the expected earnings based on the volume of traffic to be handled at current rates. The estimates are then compiled and scrutinized at the Zonal Headquarter level for

[24] *The Acworth Committee aimed at separating the railway finance from the general finances of the government. Accordingly, a resolution was adopted by the Central Legislative Assembly on 20th September, 1924 as a convention. This resolution provided for a separate railway budget and was known as 'separation convention'.*

25 There are 68 divisions and 44 workshops spread over 16 zones excluding Metro Railways

[26] *17 Zones and 6 Production units-*

consideration and final allotment by the Railway Board. Railway Board also scrutinizes the estimates received from all the Zones. The estimates of expenditure are presented to the Parliament in the form of 'Demand for Grants'. After passing of Appropriation Bill by the Parliament, budgetary allocations are made to all the Zonal Railways.

3.3 Audit Findings

3.3.1 Non compliance to Ministry of Finance Observations

Ministry of Finance (MoF) while commenting on the budget proposal (2009-12) of Ministry of Railways, observed that even after increase in the freight charges, there were short realization of Gross Traffic Receipts (GTR) coupled with increase in Ordinary Working Expenses (OWE). MoF inter-alia advised that IR should ensure that bulk of Gross Budgetary Support (GBS) be utilized towards the priority projects and implement credible plans for increasing Internal and Extra Budgetary Resources (IEBR) in their total plan.

Scrutiny in Audit revealed that the observations of the Ministry of Finance were not adequately addressed by the Ministry of Railways (MoR). Few issues are mentioned below:

i. During 2009-10, MoF advised MoR to gear up and guard against further slippages on the Revenue front. Audit observed that against the projected Gross Traffic Receipts of ₹ 88356 crore, IR could garner only ₹ 86964 crore (2009-10).

ii. Against a projection of ₹1.69 lakh crore, IR could generate and utilise ₹1.14 crore from their IEBR during 11th Plan period leaving a gap of ₹ 0.55 lakh crore. During 2011-12, IR could generate only ₹ 23988 crore towards IEBR against projection of ₹ 35735 crore leaving a gap of ₹ 11747 crore. IR was not able to generate adequate internal resources due to higher rate of increase in ordinary working expenses over GTR. The average rate of growth for OWE was 15.22 *per cent* during the year 2009-12 in comparison to growth rate of 10.68 *per cent* for GTR during the same period. The initiative taken by the IR to augment their freight revenues by increasing the fares failed to generate adequate GTR.

iii. The increase (12 *per cent*) in the amount met from Pension Fund from ₹ 16019 crore (2010-11) to ₹ 17919 crore (2011-12) had adverse affect on generation of internal resource which decreased to ₹ 8935 crore in 2011-12 as compared to ₹ 11528 crore (22 *per cent*) generated during the previous year.

iv. Due to shortfall (28 *per cent*) in internal resources and EBR component, the Plan Expenditure during the year 2011-12 was reduced by ₹ 11163 crore (19 *per cent*). In January 2012, MoF extended a loan[27] of ₹ 3000 crore towards meeting the **capital expenditure** of Railways. Audit observed that the said loan obtained at the interest rate of 8.55 *per cent* was utilized for **development works**.

3.3.2 Non compliance with the codal provisions

The compliance with the detailed provisions relating to the preparation of Budget as laid down in the Indian Railway Financial Code[28] were examined. Details of deviations noticed in different Zonal Railways while projecting estimates both in respect of receipts and expenditure are mentioned in **Appendix 3.2.** A few instances are highlighted below for understanding the gravity of the issues:

3.3.2.1 Budgeting for Receipts

i. As per provision contained in Para 313 of Indian Railway Financial Code Volume I, two sets of the estimates of earnings should be prepared, one on the basis of originating earnings[29] and the other with reference to apportioned earnings. The two sets of figures are required to be sent to the Railway Board both for the Revised Estimates for the current year as well as the Budget Estimates for the following year. Audit observed that in case of ER, two separate sets were not prepared and sent to Railway Board. In case of SECR estimates based on apportioned earnings were sent to Railway Board, however, estimates for originating earnings were not sent by the SECR to the RB.

ii. Para 314[30] provides that Earnings from each class of passenger traffic should be estimated on the basis of passenger kilometres and the average fare per passenger kilometre for each class separately. The earnings from parcels traffic should be estimated in the same way as for goods traffic and military traffic should be assessed on the basis of the previous actual and the influence of changing conditions in the future. The earnings from coaching traffic, other than passenger, parcel and military traffic, may be estimated on the basis of a ratio of the earnings from passenger traffic to be determined with reference to the previous actual. Audit, however, observed that in ER, NWR and SCR, earnings from each class of passenger traffic separately for AC, First Class, Second Class were not being prepared. This is required to enable the Railway Board to judge whether the estimates are reasonable. It also helps in assessing the total traffic prospects of the Railways. In SCR, the earnings from military traffic were not assessed. There was no documentation in support of the projected growth rate for traffic in five zones[31].

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[27] ***Ministry of Finance (Department of Economic Affairs) letter No. F.2(1)-B(AC)/2011 dated 31 January 2012***
[28] ***Para 309 to 337 of Indian Railway Financial Code Volume I***
[29] ***Total originating earnings represent earnings on originating basis i.e. without apportionment of earnings derived from through traffic***
[30] ***Indian Railway Financial Code Volume I***
[31] ***ER, NWR,SECR, SR, and SCR***

iii. Para 322 of Indian Railway Financial Code Volume I provides that the variations under Passenger, Goods and Other Coaching earnings on account of the effect of increase/adjustments, if any, in fares and freights as compared to the increases provided in the Budget Estimates for the year should be explained separately. The revised estimates of the earnings to have a proper correlation to the latest traffic anticipations as revealed from the originating, cross and received traffic figures. Audit observed that the variations for Passenger, Goods and Other Coaching Earnings on account of effect of increase/adjustment in fare and freight as compared to the increase provided in the Budget Estimates for the year were not explained as per codal provisions in case of ER, SCR and SR.

3.3.2.1 Budgeting for Expenditure

i. Para 326 of Indian Railway Financial Code Volume I provides that a brief narrative explanation to be given in case wherein substantial differences exist between the figures adopted for the revised estimate of the current year and the actual of the previous year vis-a-vis budget allotment for the current year. This was not followed in five zones[32];

ii. As per extant provision[33], the revised estimate for the current year and the budget-estimate for the next year should be fixed only after taking into account the expenditure of the previous year as compared to the expenditure made during the first seven months of the concerned financial year with the corresponding period of the previous year. A complete explanation of all the special features including all/any exceptional and abnormal adjustments along with the amounts involved which were included in previous year as well as current year along with next years' projection, should be given in the explanatory note accompanying the estimates. The financial effect of variations on account of specific reasons should be clearly brought out under each Demand. Audit observed that the said provision was not followed in case of six zones[34];

iii. Separate statements showing the details of the estimated number of rolling stock proposed for repairs along with the unit cost were also not furnished by seven zones[35] as required under Para 332 of Indian Railway Finance Code Volume I;

iv. No justification was provided by the six zones[36] regarding extant provisions[37] in case of each variation of the estimates as regards to the increase/decrease of the earnings/expenditure over the previous period.

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[32] ***ECR, NWR, SCR,SR and WCR***
[33] ***Para 327 of Indian Railway Financial Code Volume I***
[34] ***ECR, ER, NWR,SCR,SR,WCR***
[35] ***ECR,ER,NWR,SCR,SECR,SR and WCR***
[36] ***ER,SCR,SR,ECR,NWR and WCR***
[37] ***Para 322 and 326 of Indian Railway Financial Code Volume I***

Thus the estimates prepared were incomplete and faulty as they were prepared with deficient procedures and were sent to the Railway Board with moderations from the Zonal level. Therefore, this deficiency in compliance with the extant provisions led to defective budgeting which in turn resulted in excess/savings under various grants in different zones as discussed in the subsequent paragraphs.

3.3.3 Defects in Budgeting

The efficiency of the Budgeting process prima facie depends on the realistic assessment of the expenditure and earnings so as to ensure optimum utilization of funds. While allotting funds to each zone, the Railway Board moderates the requirement of each zone on the basis of the availability of resources. Therefore, any deficiency with regard to the accuracy of the estimates resulted in excess expenditure /surrender of allotted funds.

Audit observed that in 248 instances the actual expenditure incurred by the Zonal Railways exceeded the allotment made by the RB and there were savings in 139 instances on account of lesser allotment of funds. Extent of incorrect assessment of funds as observed in different zones is discussed in detail hereunder:

3.3.3 1 Excess Expenditure Over Allotment

In the final grant stage, RB moderated the requirement of the zone without ensuring proper documentation of the basis of moderation. Even after moderation, there was little control over the expenditure incurred by the various zones.

a) <u>Requirement of Funds decreased by the RB</u>

Audit observed that the Railway Board reduced the requirement of funds of the zones; therefore, the actual expenditure incurred by the zones exceeded the allotment of funds made by the RB. It was also observed that on one hand there was excess expenditure of ₹ 9497.78 crore (80.21 *per cent*[38]) during the period 2009-12 whereas on the other hand ₹ 11840.64 crore was surrendered by the zones at final grant stage **(Appendix 3.3)**. Table No.1 shows few instances wherein zones incurred excess expenditure as indicated below:

Table No. 1: Expenditure in excess of Final Grant ***(₹ in crore)***

Grant No.	Year	Railway	Budget Grant (BG)	Final Grant (FG)	Actual Expenditure (Act)	Variation between FG and BG #	Variation Between Act and FG *	Per cent of Excess over Col 7
1	2	3	4	5	6	7	8	9
4	11-12	NCR	559.63	481.54	510.38	-78.09	28.84	36.93
5	11-12	WCR	366.62	283.02	321.21	-83.6	38.19	45.68

[38] *The figure represents the average of excess expenditure during 2009-12.*

12	11-12	SR	285.95	234.61	280.23	-51.34	45.62	88.86
3	10-11	ECR	248.65	151.92	225.67	-96.73	73.75	76.24
4	10-11	NCR	539.53	300	462.45	-239.53	162.45	67.82
6	10-11	ECR	352.57	180	479.46	-172.57	299.46	173.53

Cl.7= Cl.5- Cl.4, * Cl.8= Cl.67- Cl.5

b) <u>Excess allotment made by the RB</u>

Further scrutiny by Audit revealed instances wherein Railway Board increased the requirement of Zonal Railways. In such cases, the actual expenditure incurred by the zones was in excess of allotment. This excess expenditure amounted to ₹ 1414.14 crore (45.79 *per cent*[39]) in addition to the excess funds sought by the zone **(Appendix 3.4)**. A few instances are mentioned in Table No. 2 below:

Table No. 2: Expenditure in excess of fund sought by the zones

(₹ in crore)

Grant No	Year	Railway	BG	FG	Act Exp	Variation between FG & BE	Variation Between Act & FG	Per cent of Excess over Col 7
1	2	3	4	5	6	7	8	9
8	11-12	SER	435.72	438.31	443.62	2.59	5.31	205.02
9	11-12	NR	1618.2	1675.7	1859.3	57.5	183.6	319.3
8	10-11	CR	570.85	598	622.86	27.15	24.86	92.57
12	09-10	NR	494.48	565.84	739.26	71.36	173.42	243
11	09-10	CR	319.37	323	326.97	3.63	3.97	109.37

3.3.3.2 Surrender of Funds

Railway Board reduced the requirement of funds for the zonal Railways. The actual expenditure incurred by the Zonal Railways was, however, significantly below the amount allotted by the Railway Board.

Audit observed that during 2009-12, even after reduction of BG, the actual expenditure incurred was less than the FG, as ₹ 6125.84 crore were surrendered on account of under-utilisation of Final Grant due to erroneous budget requirement assessed by the Zonal Railways. A few instances are mentioned below and details are shown in **Appendix 3.5**.

Table No. 3: Under-utilisation of fund

(₹ in crore)

Grant No	Year	Railway	BG	FG	Act Exp	Variation between FG & BE	Variation Between Act & FG	Per cent of Excess over Col 7
1	2	3	4	5	6	7	8	9
3	11-12	NCR	226.34	215.23	202.98	-11.11	-12.25	110.26
4	11-12	ECR	507.56	460	420.69	-47.56	-39.31	82.65
10	10-11	ECR	1239	1120	1035.5	-119	-84.5	71.01
12	09-10	ER	312.06	300	279.2	-12.06	-20.8	172.47

[39] *The figure represents the average of excess expenditure during 2009-12.*

This indicated that the assessments as well as estimation made by the zones and Railway Board were arbitrary and had no correlation with the ground reality.

3.3.3.3 Earnings below the estimate

A review of the estimation of earnings for the IR revealed that the actual earnings during 2009-11 were less than the estimated earnings. It was observed that there was shortfall of ₹ 2320.70[40] crore. IR was able to achieve the revised estimate target with a surplus of ₹198.06 crore only during 2011-12. Incorrect estimation of earning adversely affected the appropriation to Pension Fund and Depreciation Reserve Fund (DRF). While the Pension Fund is meant for discharging committed liability, shortfall in appropriation to DRF would inevitably affect the day to day maintenance/replacement of essential safety related works. **(Appendix 3.6)**

3.3.4 Financial Management

3.3.4.1 *Investment* Planning

Investment decisions relating to the creation, acquisition and replacement of assets (Grant No 16) for the Railways are processed through the annual "Works, Machinery and Rolling Stock Programme". As per extant provision[41] all works proposed to be taken up are to be included in the Preliminary Works Programme. Some works are also sanctioned as Material Modification (MM) to the existing works. MM to a project are the unforeseen modifications that arise during the course of the execution of the project. Para 302 of the Indian Railway Code for the Engineering Department stipulates that the decision on any new project can be arrived at only after the economic study of the project with a minimum Rate of Return (ROR) of 14 *per cent*.

Study of the projects sanctioned during the years 2007-12 vis-a-vis funds allotted under Grant No 16 for the Plan Heads like New Lines, Gauge Conversion and Doubling during the years 2009-12 in Eastern, Southern, Northeast Frontier, Northern and Central Railway revealed that the utilization of the funds in case of 131 projects was ₹ 3113.51 crore (61.50 *per cent*) out of 5062.45 crore. Excess and saving to the tune of ₹ 631 crore and ₹ 820 crore respectively were observed in 152 and 45 instances during 2009-12 **(Appendix 3.7).** Table below indicates the allotment and utilization of funds under different heads during 2009-12.

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[40] ***The figure represents the shortfall for the years 2009-10 and 2010-11***
[41] ***Para 609 to 611 of the Indian Railway Code for the Engineering Department***

Table 4: Allotment and Utilisation of Funds during 2009-12

(₹ in crore)

Railway	Year	No of Works	Plan Heads[42]	Original Grant	Supplementary Grant	Total Grant	Actual expenditure
ER,SR, NEFR, NR and CR	2009-10	16	1100	162.58	75.95	238.53	129.96
	2010-11	24	1100	345.74	131.11	476.85	320.84
	2011-12	37	1100	1140.13	-57	1083.13	268.9
	2009-10	4	1400	116	20	136	155.83
	2010-11	4	1400	197	119	316	447.36
	2011-12	11	1400	549.5	0	549.5	567.17
	2009-10	16	1500	255	40	295	242.45
	2010-11	37	1500	680.84	-35.5	645.34	389.02
	2011-12	83	1500	1322.1	0	1322.1	591.98
TOTAL	2009-10	36	1100	533.58	135.95	669.53	528.24
	2010-11	65	1400	1223.58	214.61	1438.19	1157.22
	2011-12	131	1500	3011.73	-57	2954.73	1428.05

Further scrutiny of records revealed the following irregularities:

i. Out of 131[43] sanctioned works as of March 2012 (New Lines-37, Gauge Conversion-11 and Doubling- 83) 100 works[44] were taken up without inclusion in the Preliminary Works Programme;

ii. 40 works[45] were included as Material Modification works to the existing works, without the observance of rules for the financial viability of the projects.

iii. Out of 131 works sanctioned, only 25 projects (19 *per cent*) met the mandatory requirement of 14 *per cent* Rate of Return (ROR). In case of 13 projects the ROR was clearly less than 14 *per cent.* Out of the balance 93 projects, the ROR of 50 projects was negative and the economical viability of the remaining 43 other projects were not available.

Detail scrutiny of the pattern of fund utilization vis-à-vis allotment by the zones test checked revealed that there cases of either underutilization/surrender of funds or excess expenditure as indicated in the table below:

[42] *Plan Head-1100 (New Lines), 1400 (Gauge Conversion), 1500(Doubling).*
[43] *ER(73),SR(14),NEFR(20),NR(19) and CR(5)*
[44] *ER(55),SR(10),NEFR(18),NR(16) and CR(1)*
[45] *ER(34),SR(2),NEFR(2) and NR(2)*

Table 5: Status of utilization of funds

Railways	*Year*	*Gauge Conversion*		*New Lines*		*Doubling*	
		Excess (per cent)	*Surrender (per cent)*	*Excess (per cent)*	*Surrender (per cent)*	*Excess (per cent)*	*Surrender (per cent)*
CR	***2009-10***	***41-288***	***NIL***	***32***	***NIL***	***NIL***	***24***
	2010-11	***41-288***	***NIL***	***NIL***	***02-25***	***2***	***NIL***
	2011-12	***41-288***	***NIL***	***NIL***	***02-25***	***NIL***	***16***
SR	***2009-10***	***20***	***NIL***	***NIL***	***48***	***NIL***	***18***
	2010-11	***41***	***NIL***	***NIL***	***71***	***NIL***	***21***
	2011-12	***99***	***NIL***	***NIL***	***45***	***11***	***NIL***
NEFR	***2009-10***	***68***	***NIL***	***NIL***	***30***	***NIL***	***20***
	2010-11	***59***	***NIL***	***NIL***	***36***	***66***	***NIL***
	2011-12	***9***	***NIL***	***NIL***	***67***	***41***	***NIL***
NR	***2009-10***	***NIL***	***NIL***	***NIL***	***1***	***NIL***	***1***
	2010-11	***NIL***	***NIL***	***158***	***NIL***	***NIL***	***1***
	2011-12	***NIL***	***NIL***	***44***	***NIL***	***1***	***NIL***
ER	***2009-10***	***NIL***	***54***	***NIL***	***19***	***NIL***	***39***
	2010-11	***3***	***NIL***	***NIL***	***53***	***NIL***	***40***
	2011-12	***NIL***	***66***	***NIL***	***96***	***NIL***	***64***

From the table above, it is observed that there were several instances of surrender of funds in respect of doubling and new lines works. Excess expenditure over the allotment was also observed in gauge conversion projects. Extent of surrender of funds and excess expenditure was indicative of the inaccurate assessment of requirement of funds by the Zonal Railways. Thus, IR deviated from its own laid down guidelines for making investment decisions. The funds allotted for the projects were not optimally utilized thus defeating the objective of judicious allocation of available resources to priority projects while preparing budget.

3.3.4.2 Appropriation to Pension Fund

As per extant provision[46] appropriation to the Pension Fund for the liability arising from pensionable services of Railway employees are to be based on actuarial calculations. It is also provided that in absence of such calculation, the appropriation is made on adhoc basis and re-assessed subsequently.

Audit observed that neither the estimation of pension liability was based on actuarial calculations nor was it re-assessed subsequently. The issue was

[46] ***Para No 339 of Indian Railway Financial Code Volume I***

highlighted vide Para 1.8.6 of the Audit Report No CA.19 of 2008-09 (Railways). Ministry of Railways (MoR) in their Action Taken Note stated (March 2010) that the appropriation to Pension Fund was being made on need-cum-availability basis. The contention of the Railway Administration was, however, not in line with the existing guidelines of estimation on actuarial basis.Further, in ER pension payment was reflected under Cheques and Bills during 2009-10.

Thus, non observance of extant provision led to erroneous appropriations to Pension Fund. **(Appendix 3.8)**

3.3.4.3 Appropriation to Depreciation Reserve Fund

The contribution to DRF is being made on the basis of historical cost, expected usual life and expected residual life of assets. The appropriation to this fund is meant for replacement and renewal of over-aged assets. Table below indicates the appropriation to DRF vis-à-vis budgeted provision during the years 2009-12:

(₹ in crore)

Particulars	*2009-10*	*2010-11*	*2011-12*
Appropriation to DRF (BE)	*5425.00*	*7700.00*	*9038.70*
Appropriation to Fund (Actual)	*2287.00*	*5615.00*	*9349.40*
Excess/Shortage	*(-) 3138.00*	*(-) 2085.00*	*(-) 310.70*

From the table above, it is observed that there was wide gap between the budgeted provisions and the actual. Thus, lack of correlation of actual provision with the estimate was indicative of inherent deficiencies in budgeting.

3.3.4.4 Internal Control Update

An effective internal control mechanism ensures compliance to the rules and regulations for efficient management of activities and resources of the organization. It also ensures reliable financial reporting and provides timely feedback and provides assurances to the management and other stakeholder relating to its achievement on financial and operational performance. Chapter-VIII of Indian Railways Code for Accounts Department (Part –I) has laid down detailed procedure of internal check.

Audit reviewed the effectiveness of the internal control system in place for efficient management of finance of the IR and the following observations are highlighted:

A. Reconciliation of cheques and bills

Scrutiny of records relating to reconciliation of cheques and bills and remittance into banks revealed deficiencies in reconciliation and adequate initiatives in clearance of discrepancies /differences. Some instances are mentioned below:

- Due to non reconciliation of Cheques & Bills , negative balance of ₹ 13.89 crore (March 2012) was exhibited in SECR. Similar instances were also observed in other zones like NWR, ER and SR.
- In ER, an amount of ₹60.04 crore and ₹138.45 crore was exhibited as negative balances in Remittance into Banks during the year ending March 2011 and March 2012 respectively due to accumulation of unlinked credit. Negative balance of ₹ 26.72 crore under remittance into bank was also observed in SR of which the oldest balance relates to the year 1999-2000.

B. Miscellaneous Advances Revenue (MAR)

All the working expenses of the year should be booked in the same accounting year so as to have the correct projection of the operating ratio of the Railways. Audit observed that SR exhibited a balance of ₹ 85.30 crore and ₹ 15.56 crore as of March 2012 under Miscellaneous Advance Revenue (MAR) – Books and Stores respectively. This had resulted in non-booking of revenue expenditure to Final Head of Account. Similar instances were also observed in other Zonal Railways.

C. Transfer without financial adjustment (TWFA)

Para 780 of Indian Railway Finance Code Volume I provide that when rolling stock is transferred from one Zonal Railway to another, the original cost, amount of depreciation, last renewal if renewed, should invariably be transferred through TWFA. Incorrect depiction or non depiction of such transaction affects the Capital-at-Charge for payment of Dividend Payable to General Revenues, Block Account and Balance Sheet of the concerned Zonal Railways.

Audit also observed that the transfer of rolling stocks to or from ECoR during 2011-12 was not included in the TWFA.

D. Completion Reports

Para 713 and 1701 of Indian Railways Code for Engineering Department provides for preparation of completion estimate showing the details of amount of sanctioned estimate, actual expenditure, anticipated future outlay etc. Completion Reports are required to be finalized as soon as the projects are completed. Delay in preparation of completion report provides scope for irregular booking of expenditure under the projects. In SR, Audit observed that the completion reports were not finalised in respect of 108 construction projects completed till March 2009. The oldest completed project for which the completion report was not drawn pertained to 1981-82.

E. Purchase Suspense

Debit balance of Purchase Suspense represents advance payment before receipt of stores. Proper action should be taken for expeditious clearance of outstanding by debiting/crediting to the final head of account to avoid excess over allotment. Audit observed that Purchase Suspense of SER showed a debit balance of ₹ 37.11 crore as of March 2012. 64 *per cent* of the balance pertained to the year prior to 2011-12.

F. Irregular booking of expenditure

In SR, the staff for maintenance of Meter Gauge section[47] were redeployed to various Broad Gauge section under Madurai Division and the actual expenditure of ₹ 5.96 crore on their salary was incorrectly booked under Demand No 4[48] even after closure of the MG section (January 2011).

3.3.4.5 Data Integrity

The quality and integrity of data generated and utilized by an organization for budget formulation, is essential to gain assurance to the rationality and transparency in the budgetary processes. Audit examined the system of accounting of passenger fare and their apportionment to seek assurance to the authenticity of data used for apportionment of earnings. Audit observed that:

i. In SR, 'Base Fare' and other additional components of passenger fare such as superfast charges, tatkal charges, advanced Reservation charges, service tax etc were consolidated under 'Base Fare' of passenger earnings instead of accounting them separately. Possibility of irregular apportionment of earnings to other Zonal Railways due to Incorrect accounting of passenger fare i.e misrepresentation of earning shown under 'Base Fare' cannot be ruled out as while apportioning earnings certain elements of passenger fare are either excluded or included depending upon the rules for creation of additional charges. The impact of erroneous accounting could not be assessed in audit as the earning on account of levy of additional charges was not distinctly identifiable.

ii. The Originating earnings and share of apportionment for the Zonal Railways are compiled by Centre for Railway Information System (CRIS). The consolidated originating earnings and that of apportioned amount are being advised to zones as a single lump sum amount

[47] ***Madurai - Bodinayakanur section***
[48] ***Detailed head 280-Maintenance of Meter Gauge assets***

without any supporting documents. Neither the Zonal Railways nor Audit could verify the authenticity of the amount advised by CRIS in the absence of detail break- up of the consolidated amount and the basis of apportionment and calculation of originating passenger traffic earnings.

Thus, weak internal control resulted in improper accounting of expenditure /earnings and accumulation of inefficient balances under suspense head. Non-observance of rules and regulation due to absence of effective internal control defeated the objectives of authenticity and transparency in accounting and budgeting.

3.4 Conclusion and Recommendations

Indian Railways has not strictly adhered to rules and regulations laid down for realistic formulation of budget. Suggestions of Ministry of Finance in respect of steps required to be taken by the Ministry of Railways while formulating budget were not given due consideration. Estimation of earnings was not properly classified. The basis adopted for projecting growth and variation in earnings as well as expenditure were not adequately assessed and documented. Moderation of estimates both at the zonal level and the RB level were resorted to without recording reasons thereof. Non-observance of extant provisions led to adopting defective budgeting procedures which manifested in the form of incorrect assessment of funds. Several instances of incurrence of expenditure in excess of the final grant or under-utilisation of allotted fund were observed. The variation between budget estimate and actual expenditure was indicative of inaccuracy of the data adopted for estimation at spending unit level. Arbitrary investment decision without adhering to the laid down criteria for assessing economical viability of projects led to either excess expenditure or savings in allotted fund. Deviating from the extant procedure, appropriation to Pension Fund was made on need cum availability basis instead of actuarial basis. Thus, poor financial management resulted in shortfall in generation of internal resources and extra budgetary resources in addition to reduction in plan expenditure. Existing internal control systems was not adequate in ensuring compliance to the rules and regulation for effective budgeting.

3.4.1 Recommendations

Railway Board

- ***MoR needs to adhere to the guidelines of the Ministry of Finance (MoF) in respect of measures to be addressed while formulating budget. MoR also needs to record reasons or constraints for not adhering to the suggestions of MoF;***
- ***MoR to institutionalize effective system of documentation of the process of preparing estimates and the system of verifying the authenticity of data used in projecting estimates;***

- ***MoR needs to devise suitable strategies for generating adequate internal resources and strengthen financial management for optimal use of available resources;***
- ***MoR may redefine its existing internal control mechanism for ensuring compliance with the extant rules and regulation for effective budgeting and also for proper fiscal reporting. Accountability and responsibility needs to be clearly defined;***

Zonal Railways

- ***Zonal Railways may strengthen its internal control mechanism to gain assurance that the extant guidelines for realistic formulation of budget are complied with and documented.***
- ***Zonal Railways needs to improve its monitoring mechanism over utilization of fund and timely assessment of their requirement. Zonal Railway also needs to document the process of moderation with sufficient justification for bringing transparency in budgeting.***

(VIJAYA MOORTHY)

New Delhi **Deputy Comptroller and Auditor General**

Dated

Countersigned

(VINOD RAI)

New Delhi **Comptroller and Auditor General of India**

Dated