Chapter-3 Accounting of Projects in Indian Railways

3.1 Introduction

Indian Railways undertakes various projects from time to time for augmentation of network capacity including renewal and replacement of depleted assets. The annual plan outlay during 2012-13 was ₹60,100 crore[32]. While incurring expenditure on such works/projects, it is essential that the utilization of the resources have to be properly accounted for and periodically monitored.

3.2 Audit Objectives

Audit reviewed the accounting of projects to assess whether:

I. Project Accounts were maintained as per prescribed standards in Railway Codes and Manuals;

II. Booking of expenditure in the books of Construction Organization was as per codal provisions; and

III. Monitoring of expenditure with reference to physical and financial progress was efficient.

3.3 Sources of Audit Criteria

The audit criteria were derived from the various provisions laid down in the Indian Railway Financial Code (Financial Code-Volume I) regarding maintenance of Works Register[33], periodical review to control expenditure etc. Provisions contained in Indian Railway Code for Engineering Department (Engineering Code) in respect of preparation of completion report, monitoring the relation between physical and financial progress, adjusting transactions towards transfer of stores in the same financial year, Material-at Site Account were taken as the criteria for assessing the compliance with the standards of project accounting.

3.4 Scope of Audit

The audit study covered aspects relating to assessment, accounting, monitoring of project costs (including accounting for material and contracts) and exhibition of details in project accounts in Construction Organizations during 2012-13. Reconciliation, preparation of completion reports, material-at-site accounts and other transactions relating to the period prior to 2012-13 were covered wherever relevant and necessary.

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[32] *Total outlay as per Book of Demands for grants in Indian Railways*
[33] *Works Registers record the detail bookings of expenditure project wise by Accounts & Executive*

3.5 Audit methodology and Sample Size

Pink Book[34] of 2012-13 includes 1,180 projects under four Plan heads {Plan head-11 (New Lines), 14 (Gauge Conversion), 15 (Doubling) and 33 (Signaling & Telecommunication)}. These four Plan heads were selected for review in audit. Out of these 1180 projects, in all 525 projects were reviewed based on issues related to accounting of projects. The details of the sample are elaborated in the ***Appendix-3.1.***

3.6 Audit Findings

3.6.1 Works Registers

Para 1472 of Engineering Code and Para 521 of Financial Code-Volume I stipulate the procedure of maintenance of works registers to facilitate the control of expenditure with reference to sanctioned estimates, budget allotment and details of expenditure on each work. Para 1478 of Engineering Code stipulates the procedure to be adopted to facilitate control over works expenditure against estimate as well as allotment. The Accounts Officer should furnish periodically the estimated cost allotment, expenditure and up-to-date expenditure on each work during the year to the Executive Engineer. The cost of ongoing and completed projects included in the books of Accounts is to be validated by reconciling the expenditure booked in the Works Register. To ensure correctness of figures exhibited in the books of Accounts, prompt reconciliation of expenditure booked under projects is necessary.

Audit compared the expenditure booked in 164 selected projects in the Works Register maintained by Accounts with the expenditure recorded in the Works Registers of Executives. Scrutiny of records revealed that all the Zonal Railways maintained separate work registers both by the Executives and the Accounts except NR and ECoR where Works Register was being maintained by the Accounts wing only.

Review of records revealed that the total expenditure of ₹51,667.83 crore was booked (up to March 2013) in 305 Works Register in respect of 144 projects (excluding 10 projects each in NR and ECoR) maintained by accounts office whereas the expenditure mentioned in the books of Executives was only ₹35,960.86 crore. The variation in expenditure of ₹15,706.97 crore was not reconciled.

[34] ***Pink Book refers to the budget allotment made in the Railway Budget for various projects***

The status of expenditure booked in 305 work register was as under:

Table 3.1 -Status of reconciliation of expenditure booked in Works Registers

(₹ in crore)

Status of reconciliation	No. of work registers in Zonal Railway's	No. of Works Registers	Amount booked in Accounts Works Registers	Amount booked in Executive work register	Variation
Projects where reconciliation was up to date	NER-26, SCR-24, SR-3,WR-6, WCR-1, SER-7, ECR-2, CR-2, ER-2	73	28,936.74	28,964.71	(-)27.97
Projects where reconciliation was in arrears	SR-13, WR-3, ECR-8, SWR-7	31	7,510.80	5,134.29	2376.51
Projects where no reconciliation was done	SR-10, WR-24, WCR-8, SER-19, ECR-16, SECR-30, SWR-19, CR-28, NFR-10, MR-4, ER-8, NCR-12	188	15,220.29	1,861.86	13,358.43
Projects where no expenditure was booked	SR-1, WR-4, WCR-4 (SER)-4	13	0	0	0
Total		305	51,667.83	35,960.86	15,706.97

Thus, non-conducting the reconciliation of expenditure booked in works registers, it was not possible to ascertain the actual expenditure incurred on a project. Moreover, the purpose of control of expenditure with reference to sanctioned estimates, budget allotment and details of expenditure on each project as envisaged in the codal provision was also defeated.

While admitting the audit observations, Zonal Railway Administration[35] stated that the arrears in reconciliation were due to staff shortage, shortage of time etc.

There is urgent need to take appropriate steps for prompt reconciliation of expenditure booked under projects and ensure correctness of figures exhibited in the books of Accounts (Block Account[36]). Similar instances/cases may please be got reviewed by the Financial Commissioner and Member (Engineering) of Ministry of Railways and results intimated to audit.

Appendix-3.2

3.6.2 Completion Reports

Para 1704 of Engineering Code stipulates that after all charges and credits relating to the project have been booked in the accounts of the project, a completion report of the project should be prepared. It further states that the completion report should be checked in the Accounts Office to see that the

[35] ***SECR, SR, NCR, SCR, NER, NEFR & MR***
[36] ***Block Account represents all the physical assets of the undertaking whether financed from loan capital or the Railway's own generation of funds***

entries have been prepared on the proper form and entries therein correspond with the particulars of the sanction and booked outlay. Para 1705 of Engineering Code stipulates that the Completion Report is to be prepared to compare the cost of the work actually incurred with that provided in the last sanctioned estimate.

Audit examined the records maintained by accounts/executives relating to monitoring the preparation of completion reports and observed that the completion reports were not prepared for 674 projects completed/commissioned prior to March 2011. This includes 92 projects commissioned during the last three years (2008-09 to 2010-11) and 466 projects commissioned more than three years ago, of which 78 projects were commissioned twenty years ago. However, the details regarding even the date of completion of remaining 116 projects was not on record.

Zonal Railway Administration[37] accepted the audit contention and stated that the necessary steps had been initiated for drawal of completion reports.

Thus absence of sound internal control mechanism to watch preparation of completion report has resulted in non-preparation of completion reports of many new lines, doubling & gauge conversion projects commissioned long back and vetted by Finance. In the absence of completion reports it is not possible to ascertain the final expenditure incurred on a project and its comparison with that provided in the last sanctioned estimate. As the books of accounts are open, there is a possibility/risk of adding on expenditure even after its completion.

This is a serious lacunae in ensuring correct depiction of the expenditure against the budget voted by the Parliament. Financial Commissioner and Member (Engineering) of Ministry of Railways should evolve a robust internal control system to assess and verify the cost of completed projects in the books of Accounts and works registers.

Appendix-3.3

3.6.3 Project Appraisal

Para 243 of Financial Code-Volume-I stipulates that a post project appraisal is necessary to find out if the financial return anticipated from a project at the estimate stage was actually realized in due course. This is accomplished by conducting a Productivity Test for all major works. Para 244 (Financial Code-Volume-I) provides that in respect of each New Line opened to traffic, the Railway Administration should submit a statement to Railway Board showing the financial results of its working in Form F-244. For any such comparison to be meaningful and realistic, it is important that the computation of the actual

[37] ***SECR, SR, NCR, SCR, NER, NEFR & MR***

additional earnings and working expenses is done on the same lines as at the project estimate stage.

Railway Convention Committee allows a moratorium on payment of dividend on investments in new line projects during the period of construction and for the first five years after opening of new line for traffic. Cumulative dividend is payable when the line shows surplus after meeting current liability. The amount of dividend liability is closed after 20 years, extinguishing all such un-liquidated liability.

Audit examined the position relating to post project appraisal and found that in none of the 93 major projects completed (New Lines, Doubling & Gauge Conversion) during 2007-08 to 2011-12, the Productivity Test was carried out by Zonal Railways. Thus, the mandatory test to assess the actual financial returns of the projects vis-à-vis the estimated return was not carried out in all the 93 projects reviewed in audit across the zonal railways. Non-conducting the post project appraisal of major projects has not only violated the codal provisions of Para 243-244 of Financial Code but also resulted in non-payment of deferred dividend liability on New Lines to Government of India. General Manager and the Financial Adviser and Chief Accounts Officer of the Zonal Railways need to carry out the post project appraisal of the completed projects as per the codal provisions of Paras 243, 244 and 252 of the Financial Code-Volume-I.

Appendix-3.4

Zonal Railway Administration[38] accepted the audit contention on non-conducting productivity test. Failure to work out the financial results of working of new lines (or sections of new lines) had resulted in non-compliance of Para 243 of Financial Code-Volume-I.

3.6.4 Asset Register

In order to prove the value of assets, as per Para 1720 of Engineering Code, an Asset Register is to be maintained in form E-1720 wherein the investment cost of projects should be docketed and the register handed over to the open line after completion of the project, as a part of handing over records for retention as permanent record. Block Accounts exhibit value of Assets created by Railways from various sources of finance such as Capital, Depreciation Reserve Fund, Development Fund etc. Ministry of Railways (November 2000) in the Action Taken Note contained in the 9th Report of the Standing Committee on Railways (1997-98) on Railway Finances informed the Standing Committee on Railways that standardized format for the asset register had been developed and circulated to all Zonal Railways and

[38] ***SECR,MR,NEFR***

Production Units. Audit examined the position prevailing in Construction Organizations and found that:

i. Out of 525 works test checked, asset register was not maintained in respect of 500 works. In the remaining 25 works, asset register was maintained in two Zones (SER-12 and CR-13);

ii. Cost of the commissioned projects was not transferred to Divisions

Zonal Railway Administration [39] in their reply stated that due to shortage of staff, details of the assets were not prepared and handed over at the time of handing over assets to open line etc. SCR administration stated that instructions are being issued to all the field units to open the Assets Registers and maintain the same as per codal provisions of Engineering Code.

The remarks of the Zonal Railway Administration confirm the audit finding. Thus, the Block Accounts of the Construction Organizations are not reliable and cannot be authenticated.

Member (Engineering) and Financial Commissioner of Ministry of Railways should ensure that the Asset Registers are maintained as per the codal provisions of Para 1720 of Engineering Code. The assurance given by the Ministry of Railways to Standing Committee on Railways regarding development of standardized format of the Asset Register and its software for compiling the Asset Register need to be complied with.

Appendix-3.5

3.6.5 Project Account

Cost of materials is one of the main components of cost of projects. Audit reviewed methods and practices adopted by Construction Organizations in accounting of stores. The results are furnished here under:

3.6.5.1 Materials-at-Site Account

As per Para 1436 of Engineering Code, for materials obtained for specific works, received at the site of the work and not immediately consumed on the works should be temporarily held at charge of a sub-head of work under “Material-at-Site Account” in the Register of Works. The sub-head is to be cleared from time to time as and when the materials are issued or actually used on the work. Every month the stock holder should submit a numerical account in Form E.1441 of the materials at site to the Executive. At the end of every financial year, the accounts officer should prepare a schedule of the materials-at-site balance. In order to exhibit true and fair view of cost of materials booked in the particular project/work, it should be ensured that materials were actually utilized in the particular project/work.

[39] ***SECR, SCR***

Audit observed that out of 525 works checked, material-at-site account was maintained only in 94 works in WR, WCR, SER (Signal and Telecommunication Department only), SWR, CR and NR. In the remaining 431 works, material-at-site account was not maintained. Periodical return of material at site was not prepared by executives and sent to accounts for verification.

Non-compliance of codal provisions in maintaining the inventory is fraught with the risk of loss of material. Ministry of Railways needs to impress upon the concerned executive departments for compliance of the codal provisions in maintaining the "Material-at-Site Account" in all the works.

Appendix-3.5

3.6.5.2 Transfer of Stores

Para 322 of Accounts Code stipulates that all transactions towards transfer of stores and rendering of services should be adjusted in the same financial year in which the transaction took place.

Audit noted that adjustments were carried out within the same financial year by ECR, SECR and Metro Railway/Kolkata. Test check of records relating to transfer of stores in 56 projects under Plan Heads 11-New Lines, 14-Gauge Conversion and 15-Doubling revealed that transactions for ₹235.37 crore towards transfer of stores to other units and receipt of materials worth ₹122.94 crore from other units remained unadjusted as on 31 March 2013.

Zonal Railway Administration[40] in their reply to audit observations has stated that due to delay in acceptance of materials by the units, paucity of funds etc. transactions towards transfer of stores in the same financial year could not be done. However, efforts will be made to accept the Adjustment memos in the same financial year as far as possible.

Thus, due to non-adjusting the cost of stores procured and utilized as exhibited in the books of project, the actual expenditure on the project could not be ascertained. As a result, project accounts lacked transparency in reporting value of stores utilized in a particular project. Non-adjustment of the transactions resulted in incorrect exhibition of expenditure in the accounts of projects/works executed under Plan heads 11-New Lines, 14-Gauge Conversion and 15-Doubling. Failure of the Accounts department to bring out the accountability by way of adjusting the cost of stores in the same financial year, the fund allocations made by the Parliament against the particular projects were not utilized judiciously.

Ministry of Railways needs to take appropriate steps to ensure accounting of transactions related to transfer of stores in the same financial year so as to exhibit the actual cost of stores utilized in the projects. ***Appendix-3.6***

[40] ***SCR***

3.6.6 Booking of Maintenance Expenditure

Expenditure incurred in execution of various works/Projects by Construction Organization is to be allocated to Grant No.16-Assets, Acquisition and Replacement. Expenditure incurred in Divisions, Workshop & Stores and Headquarters Offices in connection with repairs and maintenance of permanent way, rolling stock and other assets are to be booked to revenue grants. Test check of the records of SWR and NEFR revealed irregular booking of expenditure towards establishment and maintenance charges as mentioned below:

i. Expenditure of ₹0.37 crore on maintenance charges on partially opened track in Hassan-Bangalore City via Sharavanabelagola new line was booked to capital instead of revenue. As against the provision towards establishment charges of Signalling Department made in the estimate for the Kottur-Harihar new line project, an expenditure of ₹3.27 crore was booked during the period from 2007-08 to 2010-11. To regularize the excess booking, an amount of ₹1.52 crore was transferred to Birur-Shivani and Kadur-Chickmagalur Doubling projects during 2012-13. The initial booking of the expenditure to a new line project and subsequent transfer of partial amount to two Doubling Projects was indicative of ineffective system of monitoring of expenditure (SWR) by the Accounts Department.

ii. Expenditure incurred towards construction of pavilion and development of football ground at Loco Colony, Pandu to the tune of ₹0.12 crore was booked to the Senchoa-Silghat gauge conversion project, which was completed long ago. This resulted in irregular diversion of fund, inflating the cost of the project, delay in closure of the accounts and drawal of completion report (NEFR).

Thus, incorrect accountal of funds not only violates codal provisions, it also results in incorrect reporting to the Parliament regarding the utilization of funds allocated/authorized under the revenue and capital grants. Ministry of Railways needs to issue instructions to executive and accounts departments for booking of expenditure strictly as per the codal provisions of Financial Code and maintaining financial discipline.

3.6.7 Accounting of Contractual Payment

Contractual payments constitute one of the major components of project account. Audit analyzed the system of recording contractual payments in the projects and observed that the transactions relating to contracts were dealt separately in individual files of executive offices violating the codal provisions given in the Engineering Code (Para 1483 and 1484). As a result, executives did not have consolidated details of a particular contractor. Further, the dues to be recovered from the contractor towards grant of advances and non-return of materials could not be ensured due to non-maintenance of contractors' ledger. The results of failure of executive departments in maintaining the transactions of the contractors properly are discussed in the succeeding paragraphs:

3.6.7.1 Accounts of Contractors

As per Para 1484 of Engineering Code, contractors accounts should be closed without delay on completion of the work. If a contractor delays to receive final payment for more than one month of the final certificate has been passed, the account of the work and of the contractor should be closed and the balance due credited to Deposit Miscellaneous till the settlement of contractor's claim.

Audit reviewed 4,407 agreements which were completed pertaining to the selected 164 projects and noticed that accounts relating to 3,523 agreements were closed on completion of the works by duly preparing material reconciliation statement. In the remaining 884 agreements the accounts were not finalized. Due to non-finalization of accounts, the amount due for recovery from the contractors towards non-return of materials could not be ensured. The reasons for delay/non-finalization of accounts were attributed to delay in recording final measurement, delay in preparation of material reconciliation statement and final variation statement, non-availability of funds etc.

Zonal Railway Administration[41] in their reply to audit observations have stated that due to delay in measurement, delay in preparation of variation statement, non-availability of funds, arbitration cases etc the agreements could not be finalized. Ministry of Railways needs to impress upon the executive departments for early finalization of contractors accounts so as ascertain the actual expenditure incurred in the projects.

Appendix-3.8

3.6.7.2 Maintenance of Contractors' Ledger

Para 1483 of Engineering Code stipulates that the accounts relating to contractors should be kept as personal accounts in contractors' ledger in Form E 1483 and a separate folio should be opened in the ledger for each contractor. The accounts of each contractor should exhibit all transactions with him, whether relating to one or several works or to materials purchased from him or supplied to him. The contractors' ledger should be posted as bills are paid and it should be closed and balanced monthly.

[41] ***SECR, SR, NCR, SCR, NER, NEFR & MR***

Scrutiny of records relating to the system of recording contractual payments 6,551 agreements executed through contracts for 164 selected projects revealed the following:

i. Contractor's ledger was maintained for all the agreements (4,299) executed by 9 Zonal Railways[42];
ii. In five Zonal Railways[43], out of 1046 agreements, contractor's ledger were maintained only for 379 agreements; and
iii. No ledger was maintained for any of the 1,104 agreements in SWR and ECoR; and
iv. Out of 102 agreements, contractor's ledgers were maintained for 100 agreements in WCR.

Appendix-3.7

Since the transactions relating to contracts were dealt separately in individual files of executive offices, the consolidated details of a particular contractor was not available with the executives. The dues to be recovered from the contractor towards grant of advances and non-return of materials could also not be ensured due to non-maintenance of contractors' ledger. Ministry of Railways needs to take necessary action for proper maintaining of the contractor ledger by the executive departments.

3.6.7.3 Material Reconciliation Statement

Railway Board stipulated (September 2009) that reconciliation of material issued to and utilized by the contractor should be done while passing each on-account bill without waiting for preparation of final material reconciliation statement. Passing of on-account bills without material reconciliation statement would lead to instances where excess materials issued to the contractors would remain unrecovered from them leading to undue benefit, without being recovered.

Audit reviewed 5,737 on-account bills in respect of 164 selected projects and observed that 619 bills[44] were passed after preparation of material reconciliation statement. Remaining 5,118 on-account bills were passed without preparation of material reconciliation statement[45].

Zonal Railway Administration[46] accepted the audit contention and stated that material reconciliation statement is prepared at the time of preparation of final bills. Contention of the Zonal Railway Administration was not acceptable as the procedure followed was not in line with the extant provision of reconciliation of material while passing each on-account bill. Passing of on-

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[42] ***WR, NWR, SCR, ECR, SECR,CR, NFR, MR and NCR***
[43] ***SR, SER, NER, NR and ER***
[44] ***Pertaining to WCR, SER, SWR, SCR, ER & NFR***
[45] ***SR, WR, WCR, SER, NWR, NER, ECR, SECR, SWR, CR, NR, NFR, MR, ECoR, ER & NCR***
[46] ***SECR, SR, NCR, SCR, NER, NEFR & MR***

account bills without proper reconciliation, the possibility of leakage of public funds cannot be overruled.

Appendix-3.9

3.6.8 Released Materials

The expenditure voted by Parliament is on gross basis[47] but the compilation of expenditure by Plan Heads is on net basis taking into account the credit or recoveries generated by the realization of credit for released materials. Hence, a watch on actual realization of credit as provided in the estimate is necessary. While preparing estimates for the gauge conversion and track renewal works, estimates on account of credit for released material are prepared. The estimate[48] should be based on the quantum of materials expected to be released which is assessed on the basis of foot to foot survey done by the Permanent Way Inspectors in their allotted sections. The released materials in serviceable condition are used as second hand materials for works of lesser priority and the un-serviceable released material is sold as scrap. Thus, proper assessment and accountal of released material is important not only from the point of view of booking of the expenditure but also from the point of view of physical recovery of all the materials.

Review of 53 gauge conversion projects revealed that as against the estimated credit towards released materials of ₹1,870.15 crore, the actual realization was ₹1,240.57 crore resulting in short realization of ₹629.58 crore. Scrutiny of records further revealed the following:

i. Records relating to actual realization of Credit for Released Materials were either not available or maintained in SER and NWR;

ii. Work-wise details of estimation and actual realization of Credit for Released Rail Materials were not available in NER and ECR and hence the correctness of realization (whether on gauge conversion projects or track renewal works) and accountal of Credit for Released Rail Materials could not be verified; and

iii. As against the estimated value of ₹1,150.47 crore, the actual realization was only ₹473.37 crore resulting in short realization of ₹677.10 crore (58.85 *per cent*) in 26 projects[49]. In 16 other projects[50] as against the estimated value of ₹274.95 crore, the actual realization was ₹590.89 crore. In SECR and ER, no credit was earned though the credit for Released Rail Materials in respect of four projects was estimated at ₹70.32 crore. ***Appendix-3.10***

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[47] ***Para 1514 of Indian Railways Code for Engineering Department***
[48] ***Para 320 of Permanent Way Manual***
[49] ***Pertaining to SR, WR, SECR, NFR, NCR, ER and ECoR***
[50] ***Pertaining to SR, WR, SCR and SWR***

Zonal Railway Administration[51] in their reply to audit observations have accepted the audit contention and stated that initiative to complete this phase of work has begun.

Thus, failure to watch actual realization of credit, net cost of the project could not be ascertained. The credits towards released materials from projects were also not realized as per estimate and the released materials were not accounted for work-wise. Thus, non-maintaining of the records of credits for released materials by the zonal railways and no/lesser amount of credits realized than anticipated give rise to the possibility of embezzlement of public funds.

3.6.9 Works on Cost Sharing Basis

Any plan expenditure incurred by Railways on behalf of other parties as well as such investment/expenditure incurred by other parties as is not funded by Railways either through Gross Budgetary Support/Internal Resources/Safety Fund should rightfully be accounted for under Extra Budgetary Resources (EBR). Such items/activities inter alia, include:

(i) Deposit works of private/Public entities executed by Railways
(ii) Cost sharing projects of new lines/gauge conversion/doubling etc.
(iii) Public Private Partnership (PPP) projects
(iv) State Government's share in Road Over Bridges (ROBs)/Road Under Bridges (RUBs)

Railway Board advised (May 2013) the Zonal Railways that all investments in rail infrastructure through EBR funded through other sources need to be captured/reported to Railway Board on monthly basis along with the monthly Account Current. Zonal Railways were also advised to furnish the information relating to 2012-13 along with March actuals.

Audit observed that the instructions issued by Railway Board regarding monthly reporting of the investment made/expenditure incurred by other parties through EBR were not implemented. Further scrutiny revealed the following:

i. Projects funded and executed by Rail Vikas Nigam Limited (RVNL) were handed over to open line for maintenance and operation. But the cost of projects were not exhibited as 'leased assets' or 'funded assets' either in the books of open line or Construction organization. The Public Accounts Committee (2012-13) in its sixty seventh report on "Functioning of Rail Vikas Nigam Limited" (December 2012) stated that the Committee are deeply concerned to note that the Ministry of Railways are yet to finalize the modalities for effecting transfer of

[51] ***SECR, SR, NCR, SCR, NER, NEFR & MR***

completed projects from RVNL for including in the Block Account of Railways though RVNL had been in existence since 2003.

In April 2006, Ministry of Railways decided that after physical completion of the project by RVNL, the assets would be straightaway transferred to the concerned Zonal Railways at the value of the capital assets in their Block Account. The Committee recommended that the modalities for effecting transfer of completed projects from RVNL should be finalized within definite timelines and the committee appraised accordingly.

Thus, the value of assets created through RVNL was not being properly exhibited in the books of accounts and lacked transparency in financial reporting. The recommendations of the Public Accounts Committee (December 2012) in this regard have also not been followed in letter and spirit.

ii. In 13 projects given below executed on cost sharing basis, the railways incurred ₹ 394 crore more than its agreed percentage share of cost incurred. A comment on excess expenditure amounting to ₹ 270.38 crore by Ministry of Railways due to short receipt of funds from Government of Maharashtra for Mumbai Urban Transport Project (MUTP) being executed by Mumbai Rail Vikas Corporation Limited (MRVC) has been commented upon in the Annual Accounts of the MRVC Limited for the year 2012-13. This could lead to financial burden on the Ministry of Railways which is already facing resource crunch.

Table 3.2 Works executed on cost sharing basis

(₹ in crore)

Railway	No. of projects	Share of actual expenditure to be borne as per agreed percentage		Share of expenditure booked		Excess over agreed percentage borne by Railways
		Rly	State Govt.(SG)	Rly	SG	
SR	1	204.03	204.03	263	144.73	59.30
SWR	6	1,383.62	1,045.61	1,531.51	897.62	147.99
SCR	1	7.06	2.35	9.41	0	2.35
ECR	1	511.49	453.58	574.38	390.69	62.89
NR	3	349.47	332.56	369.3	312.73	19.83
ER	1	111.85	111.85	214	10	101.85
Total	13	2,567.52	2,149.98	2,961.60	1755.77	394.21

Appendix-3.11

Zonal Railway Administration[52] stated that the State Government is being requested to release the funds based on the progress of the projects. Accordingly, Railway Board is also being requested to allot fund in August

[52] ***SCR***

Review and Revised Estimates. However, the final allotment of additional funds by Railway Board is known only at the time of allotment of final grant. Hence there is difference in allotment of funds by the State Government and Railway Board. However, the differences, if any, are adjusted in subsequent years.

Ministry of Railways should examine aspects relating to exhibition of cost of projects funded from EBR (including RVNL) and issue guidelines for proper accounting and exhibition in Block Account in a fixed time frame and ensure transparency in financial reporting. Further, the terms and conditions of the agreements relating to the cost sharing projects should be followed strictly to ensure the proportionate and timely funding by State Governments.

3.6.10 Replacement and Renewal Works

In terms of Para 723 of Engineering Code, the estimates for replacement and renewal works should show whether any improvement is involved in the proposed work and if so, the extent of such improvement should be indicated in the estimate to enable the preparation of Block Account.

Audit observed that an amount of ₹ 62.43 crore was booked under Depreciation Reserve Fund and Development Fund during 2012-13 against 48 works undertaken in the 17 Zonal Railways. Audit observed that the extent of improvement involved was indicated only in four estimates (ER-1, NEFR-3) and in the remaining 44 estimates the percentage of improvement element was not indicated. As a result, the correctness of amount reflected in the Block Account against Depreciation Reserve Fund and Development Fund could not be ensured.

Appendix-3.12

Zonal Railway Administration[53] accepted the audit contention for and assured to implement the extant provisions in future. Zonal Railways should indicate improvement element in estimates to ensure exhibition of fair value of assets in Block Account.

3.6.11 Credit to Capital for Retired Assets

In terms of Para 436 of Financial Code-Volume-I, a statement showing the total amount under each sub-head of Grant No.16 which is credited to Capital by debiting to Depreciation Reserve Fund as a result of writing off the cost of retired assets[54] should be prepared. Railway Board stipulated (September 2006) that when Metre Gauge/Narrow Gauge assets are closed and the section is handed over for gauge conversion, the write back adjustment is to be carried out by crediting the value of original Metre Gauge/Narrow Gauge asset

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[53] ***SECR, SR, NCR, SCR, NER, NEFR & MR***

[54] ***Retired Assets are those assets which were no longer in operating activities and condemned and deleted from the Block Account of the Indian Railways.***

(estimated if original cost is not known) to Capital with contra debit to Depreciation Reserve Fund. Failure or delay in credit to Capital for retired assets may result incorrect exhibition of value of assets in the book of accounts and avoidable payment of dividend to general revenues.

Review of 45 Gauge Conversion works in 12 Zonal Railways which were in progress as on 31 March 2013 revealed that while in 10 projects (SR) write back adjustment was carried out, the same was not done in respect of 35 projects in 12 Zonal Railways[55].

Appendix-3.13

Zonal Railway Administration[56] accepted the audit contention and assured implementation of the extant provision in future.

3.6.12 Control over Expenditure

As per Para 519 of Financial Code-Volume-I, control over expenditure on works executed under Grant No.16 is exercised through:

(a) the preparation, in advance, of estimates of the expenditure to be incurred

(b) the allotment of funds through budget grants for the year, on the basis of these estimates and

(c) the continuous and concurrent review of the expenditure as incurred against the details of the estimates and against the sanctioned grants, so that revisions of estimates or re-appropriation of fund are arranged for at the earliest point of time

Para 524 of Financial Code-Volume-I provides that the Accounts Officer should prepare every month two reviews, one by Plan heads of the Grants and the other by individual works.

Test check of 525 works relating to monthly review of expenditure revealed the following:

i. While the Plan-head wise monthly review by Accounts Office was conducted in respect of 367 works[57]; the same was not conducted for the remaining 158 works[58];

ii. Work-wise monthly review by Accounts Office was not conducted in respect of 210 works[59]. Monthly review was, however, conducted for the balance 315 works[60] and;

***55** SR-1,WR-7,NWR-7,NER-2, SCR-4,ECR-1,SECR-3,SWR-5, NFR-2,ECOR-1,ER-1 and NCR-1*
***56** SECR, SR, NCR, SCR, NER, NEFR & MR*
***57** Pertaining to WR-32, WCR-10, SER-40, NWR-35, NER-10, ECR-52, SWR-39, CR-25, NR-49, NFR-40 and ECoR-35*
***58** SR-53, SCR-45, SECR-24, MR-4, ER-10 and NCR-22*
***59** SR-53, SCR-45, ECR-52, SECR-24, MR-4, ER-10, NCR-22*
***60**WR-32, WCR-10, SER-40, NWR-35, NER-10, SWR-39, CR-25, NR-49, NFR-40, ECoR-35*

A comparison of figures of allotment and utilization of funds during 2012-13 made in respect of 916 projects revealed that though the allotted funds were fully utilized in 207 projects, expenditure in excess of Budget grant was incurred to the tune of ₹ 572.24 crore in 310 projects. However, the funds to the tune of ₹ 902.32 crore were surrendered in respect of 399 projects. This indicated incorrect assessment of requirement of funds on projects besides inadequate control over expenditure.

Appendix-3.5 and 3.14

Zonal Railway Administration[61] accepted the audit contention and assured implementation of the extant provision in future.

Ministry of Railways needs to conduct effective monthly reviews as contemplated in the Financial Code and maintain records thereof and managerial decision taken based on monthly review of expenditure. Utmost care need to be taken while preparation of the estimates for expenditure on the projects and making allotment of funds.

3.6.12.1 Progress Report-cum-Financial Review

Effective financial control requires a system of monitoring the relation between physical progress and expenditure. Financial progress should be commensurate with the physical progress[62].

Test check of 505 works revealed that the physical progress was not commensurate with the financial progress in 210 works. In respect of 51 projects, the variation between physical progress and financial progress was above 50 *per cent*.

Appendix-3.15

Zonal Railway Administration[63] accepted the audit comments and noted for future guidance. SCR administration stated that physical progress will be generally more than the financial progress which includes physical work done but not paid due to paucity of funds. In case where the financial progress is more than the physical progress, the expenditure incurred in excess of the sanctioned cost which is regularized through Revised Estimates/Completion Estimates.

The accounts department and the executive departments need to reconcile the expenditure booked under the projects. The projects which are being undertaken through extra budgetary resources, due share of funds from the state governments, stake holders etc should be collected and utilized in the projects to avoid blockage of railway funds.

[61] ***SECR, SR, NCR, SCR, NER, NEFR & MR***
[62] ***Para 1518 of Indian Railways Code for the Engineering Department***
[63] ***SECR, SR, NCR, SCR, NER, NEFR & MR***

3.6.12.2 Maintenance of Works Register

As per Para 521 of Financial Code-Volume-I, a works register in Form E.1473 should be maintained to make a running comparison between the expenditure incurred on each work and the detailed provision made in the estimate for the work and the budget allotment for the work and the actual expenditure to the end of the month.

Review of Works Registers maintained by accounts for 164 works revealed the following:

i. Estimated cost was not indicated in the works registers for 72 works;

ii. Budget allotment for the year was not indicated in works registers for 115 works; and

iii. Value of materials-at-site was not indicated in works registers for 159 works

Zonal Railway Administration[64] in their reply to audit observations has accepted the audit contention and assured to implement the extant provision in future. Remarks from other Zonal Railways are awaited.

Improper maintenance of works registers by the accounts department indicates the laxity on the part of accounts departments in accountal and control over the expenditure on the projects.

Appendix-3.16

3.6.12.3 Excess over Sanctioned Estimate

As per Para 1136 of Engineering Code, expenditure or liability on a work in excess of the sanctioned estimate without the prior sanction of the competent authority should not be incurred. Railway Board reiterated (February 2000) that estimates should be prepared carefully and in case there is likely to be an increase in the sanctioned estimate, the revised estimate should be prepared well in time and no expenditure beyond 10 *per cent* over the sanctioned estimate should be incurred till the revised estimates are sanctioned.

Audit observed that in respect of 60 works/projects, expenditure of ₹44.35 crore was incurred without sanction of estimate and ₹4,957.52 crore was incurred in excess of sanctioned estimate in respect of 555 projects/works. Thus the expenditure of ₹ 5,001.87 crore incurred on 615 projects ranging from one year to more than twenty years as detailed in Table 3.3 remained unsanctioned as of March 2013.

[64] ***SECR, SR, NCR, SCR, NER, NEFR & MR***

Table 3.3 Unsanctioned expenditure

(₹ in crore)

Period (in years)	No. of items	Amount
Upto 5	261	3,195.73
5 to 10	94	802.51
10 to 15	84	415.04
15 to 20	71	169.06
More than 20	47	189.74
Period not indicated	58	229.79
Total	615	5,001.87

Zonal Railway Administration[65] in their reply to audit observations have accepted the audit contention for and assured to implement the extant provision in future.

Thus, codal provisions for not incurring expenditure without proper sanction were violated by the executive departments and accounts department also failed to check such instances of unsanctioned expenditure. Further, these unsanctioned expenditure remained un-regularized for two decades indicates the slackness on the part of concerned executive/accounts departments. Ministry of Railways needs to strengthen the internal control mechanism so as to ensure avoidance of expenditure without proper sanction by the competent authority and also to timely regularize unsanctioned expenditure.

Appendix-3.17

3.6.13 Miscellaneous

3.6.13.1 Irregular Booking of Expenditure

Based on the requirement of rails furnished by the Zonal Railways in connection with execution of various projects and maintenance of railway lines, allotment is made by Railway Board and Purchase Orders placed on M/s Steel Authority of India Limited (SAIL) by the Zonal Railways as per the allotments made by the Railway Board. Rails are either dispatched to the Flash Butt Welding Plants (FBW) for welding into panels or directly to the concerned project.

Test check of the records relating to procurement of rails by Construction Organizations in three Zonal Railways (SR, SWR, and NEFR) revealed that the rails indented for one project were delivered at or diverted to other projects and the cost of rails was not booked to the project where the rails were actually utilized. In some cases audit also noticed that the expenditure was

[65] SECR, SR, NCR, SCR, NER, NEFR & MR

booked without receipt of material in the project. A few instances of such irregular booking are given in Table 3.4.

Table 3.4 Irregular booking of expenditure

Material	Quantity (MT)	Value (₹ in crore)	Cost booked to	Remarks
Southern Railway				
60 kg rails	4,619	17.62	SA-KRR NL	₹17.62 crore booked in SA-KRR New Line instead of MNTT-KRPP & CGV–CNGR Doubling
52 kg rails	728.463	4.48	MV-TVR GC	Rails not utilized in MV-TVR GC project
60 kg rails	2,717.29	9.29	MSB-AIP 4th line	Cost of rails booked in MSB-AIP project without receipt of rails
60 kg rails	2,726.31	16.53	MV-TVR GC	₹15 crore transferred to GOC-TJ Doubling
South Western Railway				
Free rails	Not available	6.31	DRU-SKLR NL	Expenditure booked without actual receipt of material
Rails	Not available	2.6	DRU-SKLR NL	Excess credit transferred by SR afforded to the project
Free rails	Not available	9.91	RRB-SHV	Expenditure booked without actual receipt of material
North East Frontier Railway				
52 kg rails	2,345.428	8.28	KIR-JBN GC	Non-adjustment of debits raised on open line in 2009-10

Construction organization of SR stated that it was proposed to streamline the procedure by putting in place an effective monitoring system through a monthly/quarterly report from Dy.CE/EWS/AJJ on (a) the quantity of rails received at FBW against Construction account and (b) the quantity of rails shipped out by FBW to various Construction projects and a monthly/quarterly report from field level Dy.CEs/CN on the quantity of rails received at the project sites. Construction Organization should design a suitable system to ensure correct exhibition of cost of rails in project accounts.

Whenever material is spared to outside agencies, the cost of material should be recovered promptly. Audit observed that 2,891.20 metres of 90R released rails valuing ₹ 0.50 crore were spared to M/s RVNL from Chengalpattu-Villupuram (CGL-VM) doubling project in July 2009. Though, RVNL were advised in July 2009 to pay the cost of the rails, the amount was yet to be realized. Thus, the account of CGL-VM is over stated by ₹ 0.50 crore (SR).

Zonal Railway Administration (SR) stated that executive has already been advised to take necessary action for recovery and in respect of NEFR a fresh debit has been raised in February 2014 only.

The incorrect booking of expenditure in the projects where the material was not utilized and vice versa indicates violation of principles of financial prudence in maintaining the accounts.

3.7 Conclusion

Indian Railways is in general not following its own rules and regulations laid down in the Financial Code and Engineering Code for efficient execution of projects and for proper accounting of financial transactions. In the absence of proper records it is not possible to ascertain expenditure incurred in executing a project. This indicates a lack of financial discipline and increases risk of losses - both material and financial, in implementation of projects. This assumes significant importance in view of the large number of projects under implementation in the railways.

Due to lack of proper project accounting system, the Block Account, which forms an important part of the Balance Sheet of the Indian Railways, does not depict reliable amounts under the plan heads supported by proper documentation.

Cases of expenditure in excess to sanctioned estimate etc remained un-regularized for decades and has led to the situation of no control/check over expenditure on capital works.

The Ministry of Railways incurred expenditure more than its agreed percentage of cost due to non-following the terms and conditions of the agreements executed with the State Governments relating to Cost-sharing projects.

3.8 Recommendations

- ***Ministry of Railways needs to put in place a monitoring mechanism to ensure that the provisions laid down in the codes and manuals are followed scrupulously to maintain financial discipline. Executives need to be made responsible for ensuring proper project accounting to exercise effective control over expenditure with reference to sanctioned estimates and budget allotments against the projects.***

- ***Cost of assets created under each work by the field units (Divisions, Construction organizations etc) needs to be correctly accounted for, so as to exhibit the same in the Block Account at correct value.***
- ***Funding of the cost sharing projects needs to be enforced as per the terms and conditions of the agreements executed with the State Governments.***

(SUMAN SAXENA)

New Delhi **Deputy Comptroller and Auditor General**

Dated 21 July 2014

Countersigned

(SHASHI KANT SHARMA)

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

Dated 21 July 2014