

## Chapter 3 Mis-classification and Mistakes in Accounting and Followup Action

### 3.1 Introduction

The financial transactions of Indian Railways (IR) are broadly classified as Revenue Expenditure (Policy Formulation and Services, Ordinary Working Expenses (OWE), Appropriation to Funds and Dividend Payable to General Revenues), Capital Expenditure (Works Expenditure) and Earnings. The classification of expenditure into sub-major Heads with a separate Abstract for each sub-major Head is detailed in the table below:

**Table 3.1: Classification of Revenue and Capital Expenditure**

Group	Grant No.	Nomenclature of the Demand
<b>Revenue Expenditure</b>		
Policy Formulation and Services Common to all Railways	1	Railway Board
	2	Miscellaneous Expenditure (General)
Ordinary Working Expenses		
General Superintendence and Services on Railways	3	General Superintendence and Services on Railways (Abstract A)
Repairs and Maintenance	4	Repairs and Maintenance of Permanent Way and Works (Abstract B)
	5	Repairs and Maintenance of Motive Power (Abstract C)
	6	Repairs and Maintenance of Carriages and Wagons. (Abstract D)
	7	Repairs and Maintenance of plant and Equipment (Abstract E)
Operation	8	Operating Expenses-Rolling Stock and Equipment. (Abstract F)
	9.	Operating Expenses-Traffic (Abstract G)
	10.	Operating Expenses-Fuel (Abstract H)
Staff Welfare, Miscellaneous and Retirement Benefits	11.	Staff Welfare and Amenities.(Abstract J)
	12	Miscellaneous Working Expenses. (Abstract K, N)
	13.	Provident Fund, Pension and other Retirement Benefits (Abstract L)
Appropriation to Railway Funds	14.	Appropriation to Funds (Abstract M)
Payment of Dividend to General Revenues	15.	Dividend to General Revenues, Repayment of loans taken from General Revenues and Amortization of over Capitalization.
<b>Capital Expenditure</b>		
Capital and other Works Expenditure	16.	Assets-Acquisition, Construction and Replacement

*Source: Indian Railway Financial Code Volume – II.*

The various sources of funds to meet capital expenditure are Capital, Depreciation Reserve Fund (DRF), Capital Fund (CF), Development Fund (DF) and Railway Safety Fund (RSF). Capital expenditure, irrespective of the source of finance, is booked under Demand No.16-Assets-Acquisition, Construction and Replacement. There are 33 Plan Heads for classification of capital/works expenditure.

In addition, certain debt, deposit, suspense and remittance heads such as Provident Fund, Indian Railway Deposits, and Accounts with P&T, Defense and States, Remittances into Bank and Cheques and Bills are also operated in the books of accounts of Railways.

The earnings of Railways are classified under three sub major Heads with a separate Abstract for each sub major Head is shown in the table below:

**Table 3.2: Classification of Earnings**

Abstract	Nature of Earnings
Abstract 'X'	Earnings from Coaching Traffic
Abstract 'Y'	Earnings from Goods Traffic
Abstract 'Z'	Sundry Other Earnings

*Source: Indian Railway Financial Code (Vol.II)*

### 3.1.1 Observations of Public Accounts Committee on Misclassifications and mistakes in accounting

'Misclassification' refers to an income or expenditure classified under the wrong head of account. Mistakes in accounting include non-accounting of transactions, incorrect accounting of transactions, belated adjustments in the Accounts and operation of unauthorised heads of accounts, etc.

The Public Accounts Committee (PAC) in its various Reports<sup>35</sup> has expressed concern over large number of irregularities occurring in the Accounts of the Railways. The PAC in its Reports had observed the following:

- The budgetary mechanism of Railways needs to be revamped to overcome systemic lacunae/loopholes for progressive elimination of misclassification syndrome.
- In view of the perfunctory manner in which the Accounts are maintained, the Ministry of Railways (MR) should ensure proper upkeep and maintenance of Books of Accounts so that the propensity for misclassification/wrong booking of expenditure are detected in time and rectified accordingly.
- Ministry of Railways should devise a mechanism to seriously address the issue to bring down the cases of misclassifications as they indicate not

<sup>35</sup> 20<sup>th</sup> Report of PAC (2000-01), 31<sup>st</sup> Report of PAC (2001-02), 35<sup>th</sup> Report of PAC (2001-02), 45<sup>th</sup> Report of PAC (2002-03), 15<sup>th</sup> and 19<sup>th</sup> Reports of PAC (2014-15).

only apparent inadequacies in the accounting system but also glaring lapses on the part of accounting officials.

- The gravity of lapses (Misclassification, fictitious adjustment, adjustment of amounts to unrelated works, irregular adjustment of credits, non-adjustment of debits etc.) becomes more pronounced when viewed in the context of similar lapses which had also occurred in past.
- Persistent misclassification of expenditure is endemic of system failure which indicates Ministry of Railway's failure to even eliminate basic mistakes such as misclassification of expenditure.
- 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.
- The PAC urged to make optimal utilization of e-governance.
- Ministry of Railways should strengthen its internal control mechanism further since large instances of misclassification of expenditure reflect ineffective internal control which defeats the objectives of authenticity and transparency in accounting and budgeting.

#### **3.1.2 Audit Objectives**

A review of misclassification and mistakes in accounting was conducted with the following objectives to assess:

- (i) The nature and trend of misclassification in the Accounts of Railways and the reasons for their recurrence.
- (ii) Follow up action taken by Railways to rectify the misclassifications and mistakes in Accounts and the impact of non-rectification of errors on financial statements and key indicators.

#### **3.1.3 Audit Scope and Methodology**

The study covered a period of five years from 2010-11 to 2014-15. It involved the examination of records of misclassification and mistakes for inclusion in Annexure-J maintained at Zonal Railway and Divisional Railway Headquarters with attached field units.

#### **3.1.4 Audit Criteria**

The criteria for this review were derived from the relevant rules and provisions contained in Indian Railway Code for the Accounts Department (Part I), Indian Railway Financial Code – (Volume I and Volume II), guidelines and orders issued by Railway Board, PAC Reports and Action Taken Notes of the Ministry of Railways.

**Audit Findings****3.2 Previous Trend**

Misclassification and other important mistakes in accounting of earnings and expenditure are included in the Annexure J<sup>36</sup> to Appropriation Accounts of each financial year. During the review period 560 cases of misclassifications and mistakes in accounts worth ₹ 3,548.95 crore were pointed out by Audit which were accepted and included in Printed Detailed Appropriation Accounts - Part II as 'Annexure J' by Ministry of Railways. The year wise details of the cases are shown in the table below:

**Table 3.3-Year-wise position of Misclassification and mistakes**

Year	Misclassification		Mistakes in Accounting		Total	
	No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)
2010-11	48	54.03	40	328.75	88	382.78
2011-12	63	34.90	28	243.57	91	278.47
2012-13	79	45.89	66	999.29	145	1045.16
2013-14	80	47.98	81	875.45	161	923.43
2014-15	56	36.71	19	882.40	75	919.11
<b>Total</b>	<b>326</b>	<b>219.51</b>	<b>234</b>	<b>3329.44</b>	<b>560</b>	<b>3548.95</b>

*Source: Part-II -Detailed Appropriation Accounts- Annexure 'J'*

Scrutiny of records further revealed that out of 560 cases of ₹ 3,548.95 crore, 426 cases amounting to ₹ 3,031.36 crore pertained to six Zonal Railways<sup>37</sup> which indicated the absence of adequate system to obviate recurrence of misclassifications to ensure effective budgetary control. Ministry of Railways could not tackle the problem of misclassification effectively despite the PAC having expressed their serious concern from time to time over the large number of cases of misclassifications occurring while preparation of accounts.

**3.3 Nature of Misclassification**

Broadly, Misclassification of expenditure in Railway Accounts and Mistakes in accounting is of following types:

- Misclassification while sanctioning budget.
- Misclassification while booking of expenditure.
- Difference in perception with respect to interpretation of classification.
- Non implementation of changes in accounting classification, notified by Railway Board.
- Others miscellaneous mistakes in accounting.

<sup>36</sup> *Statement of important misclassification and other mistakes.*

<sup>37</sup> *SCR-138 cases- ₹ 290.52 crore, NR-126 cases-₹ 283.73 crore, SR-64 cases-₹ 304.82 crore, NCR-51 cases-₹ 73.61 crore, SWR-45 cases-₹ 1,461.68 crore and NFR-2 cases-₹ 617.00 crore.*

### 3.3.1 Misclassifications while sanctioning budget

Para 717 of the Indian Railway Financial Code (Volume I) provides that land taken up permanently, whether for Capital, Development Fund or Revenue purposes of the Railway is to be charged irrespective of the cost to “Capital”.

In SCR and NR, provision and allotment of funds for Acquisition of land was made under Development Fund and Capital Fund as detailed below:

**South Central Railway:** Land acquisition at Tirupati (Pink Book- PB) (PB-522-2011-12 PB-539-2012-13 & PB-615- 2013-14).

**Northern Railway:** Land acquisition for development of freight terminal at Holambi (PB-86-2014-15).

Scrutiny of records further revealed that in Annexure-G of the year 2014-15 Expenditure towards acquisition of land was booked under other sources of funds instead under ‘Capital’ only. The Railway wise details are shown in the table below:

**Table 3.4-Railway-wise booking of land cost under DRF, DF & RSF**

Railway	DRF		DF		RSF	
	Plan Head	Amount (₹ in crore)	Plan Head	Amount (₹ in crore)	Plan Head	Amount (₹ in crore)
<b>ER</b>			1600	0.62		
<b>ECR</b>	3100	0.22				
<b>SR</b>	3200	1.76	4100 & 5300	0.05	3000	0.02
<b>SWR</b>			4200	0.03		
<b>WCR</b>			1600	11.72		
<b>Total</b>		<b>1.98</b>		<b>12.42</b>		<b>0.02</b>

Para 711 of Indian Railway Financial Code (Volume I) stipulates that the cost of works relating to amenities for passengers and other railway users, new labour welfare works including additions to existing works, un-remunerative works for improvement of operational efficiency including additions to existing works falling in the lists in the Note (2) (A), (B), (C) is to be charged to Development Fund.

A test check of item wise works sanctioned through Works, Machinery and Rolling Stock Programme of Railways (Pink Book-2014-15) revealed that provision and allotment of funds is made under different sources of finance viz. Capital, Capital Fund, Depreciation Reserve Fund and Development Fund for the same nature of works based on the proposals sent by various Zonal Railways without adhering to the Allocation Rules provided in Financial Code (Volume I). Some instances are summarised in **Appendix 3.1**.

Even after computerisation of sanctions through Indian Railways Projects Sanctions and Management (IRPSM) and Railway Budget System (RBS through Virtual Private Network ) due attention is not given to allocation

rules while processing of works for according online sanctions for inclusion in the Works, Machinery and Rolling Stock Programme of Railways (Pink Book) resulting in basic mistakes in classification.

### **3.3.2 Misclassifications while booking of expenditure**

Para 217 of Indian Railway Code for Accounts Department, Volume I stipulates that the primary responsibility for the allocation of receipts and expenditure rests with the concerned Departmental Officers. The Accounts Department is responsible for ensuring that allocation shown on the initial document is correct.

During the review 64 cases of persistent misclassification of expenditure worth ₹ 53.47 crore were pointed out by Audit and accepted by Ministry of Railways. **(Annexure - 1)**

Similar natures of misclassification that have been repeated year after year are detailed in *Appendix 3.2*.

As per Para 303 of the Indian Railway Financial Code Volume I, any sums required to satisfy any judgement, decree by court or awards by Arbitration is to be treated as Charged Expenditure. In contravention payment of Arbitration Awards, Compensation paid in Accident cases at the instance of Court and enhanced compensation for land acquisition on the basis of Court decree were booked as Voted Expenditure instead of Charged Expenditure. Scrutiny of records revealed ten cases of misclassification involving ₹ 0.95 crore between Voted and Charged expenditure in five zones<sup>38</sup> and CORE/Allahabad. **(Annexure - 2)**

In 12 Zonal Railways<sup>39</sup>, CLW and CORE (Allahabad) 193 cases involving ₹ 337.75 crore due to misclassification and incorrect exhibition of expenditure between one revenue grant and another revenue grant, revenue grants to capital grant and vice versa, one segment and another segment (Capital, CF, DF, DRF, RSF) of capital grant which could have been avoided by Railway Administration after proper scrutiny of initial documents.

**(Annexure – 3)**

**The impact of wrong booking on dividend and subsidy:** There was excess subsidy claim of ₹ 12.27 crore and short payment of dividend of ₹ 11.83 crore in ER, NR and SR.

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<sup>38</sup> SR-3 (₹ 0.25 crore), SCR-2 (₹ 0.06 crore), NCR-1 (₹ 0.06 crore), SWR-2 (₹ 0.42 crore), WCR-1 (₹ 0.14 crore) & CORE/ALD-1 (₹ 0.02 crore).

<sup>39</sup> CR-1 (₹ 0.01 crore), ER-13 (₹ 128.35 crore), NR-45 (₹ 17.66 crore), SR-16 (₹ 20.51 crore), SCR-44 (₹ 19.81 crore), WR-8 (₹ 5.59 crore), ECR-3 (₹ 0.37 crore), ECOR-6 (₹ 7.76 crore), NCR-15 (₹ 4.52 crore), NWR-19 (₹ 30.49 crore), SECR-2 (₹ 0.12 crore), SWR-18 (₹ 88.71 crore), CLW-2 (₹ 1.34 crore), RE-1 (₹ 12.51 crore).

In ECOR an excess claim of subsidy of ₹ 1.08 crore in the year 2013-14 due to wrong treatment of capital invested against un-remunerative branch lines and irregular inclusion of capital invested towards Sambalpur –Talcher lines after moratorium period under Works in Progress category was in contravention to the Railway Convention Committee recommendations.

Categorical instructions were issued to the FA&CAOs by Railway Board in January 2011, January 2012 and June 2014 to streamline the system to preclude repetition of similar nature of misclassification year after year, but no such mechanism has been put in place to avoid recurrence and many a times cases are being repeated in subsequent years also indicating that adequate attention is not given to proper maintenance of accounts.

### **3.3.3 Difference in perception with respect to interpretation of classification.**

Railway Board (April 2013) emphasized that cases arising due to varying interpretation of classification between Railway Administration and Audit must be identified and remedial action taken in consultation with Board's Office, if necessary to avoid such incidences of misclassification in future.

During the certification of Appropriation Accounts from 2010-11 to 2014-15, 14 cases worth ₹ 95.22 crore were deferred by three Zonal Railways<sup>40</sup> Administration in absence of guidelines/correction to the allocation rules from Railway Board even though *prima facie* Railways agreed with the contention of audit. **(Annexure 4)**

### **3.3.4 Non-implementation of changes in accounting classification notified by the Railway Board**

Scrutiny of records revealed instances of mis-classification and mistakes due to the non-implementation of changes in accounting classification notified by the Railway Board as discussed below:

1. Four Zonal Railways<sup>41</sup> has not followed the instructions on Advance Correction Slip issued by Railway Board duly advising changes to various sub-heads under Minor Head-800 under Grant No. 7. In ECR expenditure on cleaning and removal of garbage at stations was to be booked under Grant No. 9 – Detailed Head – 291 instead of Grant No. 9 – Detailed Head – 299. In two Zonal Railways<sup>42</sup> Closed User Group (CUG) and bandwidth charges were to be booked in Grant No. 7 whereas this expenditure was booked in respective revenue grants.

Thus, Ministry of Railways failed in institutionalising effective mechanism to ensure implementation of changes in accounting classification.

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<sup>40</sup> ECR-1(₹ 0.60 crore), SCR-12 (₹ 93.58 crore), and NCR-1 (₹ 1.04 crore).

<sup>41</sup> SR, SCR, WR and ECR.

<sup>42</sup> SR and WR.



### **3.3.5 Other Miscellaneous Mistakes in Accounting**

The Public Accounts Committee in its 3<sup>rd</sup> report opined that the gravity of lapses (fictitious adjustments, adjustment of amounts to unrelated works, irregular adjustment of credits, non adjustment of debits etc) becomes more pronounced when viewed in context of similar lapses which had also occurred in past.

In 11 Zonal Railways<sup>43</sup> 66 cases of irregular adjustments involving money value of ₹ 1,431.05 crore were pointed out by audit and accepted by Railways. A few instances of important cases of mistakes in accounting are indicated in *Appendix 3.3*.

PAC in their 31<sup>st</sup> Report (2001-2002) stated that such accounting irregularities indicate negligence and callous attitude on the part of the authorities entrusted with responsibility of maintenance of accounts in the Railways. Ministry of Railway (October 2012) communicated to all Zonal Railways that Audit has observed that despite being pointed out by audit and Public Accounts Committee repeatedly, adequate attention was not paid at various levels to eliminate such misclassifications.

Despite issue of instructions to all Zonal Railways every year, there was no improvement in the position and similar nature of mistakes are being repeated year after year. **(Annexure 5)**

### **3.4 Failure of Internal check mechanism**

In May 2011 and September 2011, Railway Board conveyed distress at the lack of proper action at pre-audit and post audit stages to take corrective action for rectification of mistakes before closure of annual accounts and stressed the need for pre-audit and post audit internal checks drive on classification of transaction and computerization on the incidence of misclassification.

However, during the period of review, it was observed that instances of glaring errors which could have been detected by the Accounts Department through internal check and rectified before closure of Final Accounts for the financial year escaped un-noticed. A few instances of important cases are mentioned in *Appendix 3.4*.

### **3.5 Monitoring mechanism for rectification of misclassification before closure of Accounts**

Railway Board (May 2011) devised a monitoring mechanism for watching the remedial action/rectification of misclassification and mistakes before the

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<sup>43</sup> CR-4 (₹ 37.71 crore), ER-4 (₹ 11.45 crore), NR-17 (₹ 150.53 crore), NFR-2 (₹ 617.00 crore), SR-20 (₹ 244.12 crore), SER-1 (₹ 21.71 crore), SCR 9 (₹ 102.34 crore), WR-1 (₹ 7.31 crore), ECoR-1 (₹ 2.88 crore), SWR-6 (₹ 230.57 crore), WCR- 1 (₹ 5.43 crore).



closure of Annual Accounts. The following action is required to be taken by Zonal Railways:

- Misclassification and mistakes pointed out have to be reviewed at FA&CAO level every month.
- A quarterly Review Report on misclassifications and mistakes has to be sent so as to reach the office of Railway Board within 10 days at the end of each quarter.

Review of the records revealed the following:

- Though monthly review of the expenditure was done, quarterly Review Report was not furnished to the Railway Board by any of the Zonal Railways.
- Suitable instructions to prevent recurrence of misclassifications / mistakes in accounting were issued in nine Zonal Railways<sup>44</sup>.
- Responsibility was not been fixed in any of the Zonal Railways against the staff concerned in respect of misclassifications/mistakes included in Annexure-J.

### **3.6 Introduction of Financial Management Information System (FMIS)**

Railway Board (February 2015) instructed all Zonal Railways and Production Units to ensure necessary validations and checks in the FMIS over similar nature of misclassification / mistakes being repeated year after year.

Audit observed that expenditure was shown as incurred under inoperative departments, minor / sub / detailed heads and primary units.

- Budget provision is made towards Primary Unit 10-Kilometrage Allowance under Grant No.3, 4, 5, 7, 10 and 12 and expenditure is booked accordingly. However, this Primary Unit is not available in the IT Application of Budgeting against the above Grants. (SCR-2012-13 and 2013-14).
- Operation of non-existing Minor Heads / Sub Heads / Primary Units and operation of Department '00' and exhibition of the same in the Appropriation Accounts under other Minor Heads / Sub Heads / Primary Units. (SCR-2012-13 and 2013-14, SR-14-15).
- As per Explanatory Note under Abstract 'F' of Indian Railway Financial Code (Volume II), the cost of electrical energy generated or purchased is first booked under Grant No.8-620. Finally, the expenditure is to be allocated to final detailed heads and the expenditure under sub head 620 should be reduced to 'Zero'. Thus, the computer application should by

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<sup>44</sup> (ECR, ECOR, NFR, SER, WR, WCR, SR, SCR and NR).

default not accept expenditure under the sub head 620 at the end of the year. SCR and NWR reported that no such arrangement exists to ensure that the amount under the Sub head 620 is 'Zero' at the end of the financial year.

- Four Zonal Railways (*ER, ECR, SR and SER*) and one Production unit (*RWF/Yellhanka*) reported that there was lack of necessary validations and checks in the computerised environment (FMIS).
- FMIS was not introduced by CORE/Allahabad and it was stated that the same has been forwarded to CRIS for required information.

Thus, validation controls in FMIS to prevent misclassification/mistake in accounts were weak.

<b>3.7 Follow up action by Railways to rectify the misclassifications and impact thereof</b>
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Para 922 of Indian Railway Financial Code (Volume I) envisage the procedure to be adopted in the rectification of misclassification and mistakes noticed after the submission of Capital and Revenue Accounts and Finance Accounts. If any inaccuracy in the Accounts, compiled by the Accounts Branch, is noticed by Audit, the mistakes detected have to be rectified as per the procedure given below:

- No correction need to be made if the item belongs to one revenue or service head but is wrongly classified under another, a note under original entry is sufficient.
- Mistakes which affect Capital Major Heads should be affected by altering the progressive figure of Capital outlay through Transfer without Financial Adjustment (TWFA) to prevent unnecessary inflation of Current year's Accounts.
- If error affects a debt, deposit or remittance head, corrections should be made by transferring to the correct head of Account under which it should originally appear.

If the rectification of the misclassification or mistake leads to an excess over a Grant or Grants voted by the Parliament or an appropriation sanctioned by the President or to a considerable change in the dividend payable during the year to General Revenues, the orders of the Financial Commissioner (Railways) must be first obtained.

<b>3.7.1 Follow up action with respect to Capital Major Heads</b>
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The errors affecting the Capital head must be corrected by altering the progressive figure of Capital outlay through TWFA to prevent unnecessary inflation of Current year's Accounts.

A review of the records revealed that there were cases of mis-classification/mistakes relating to Capital Major Heads, which were not rectified through TWFA as envisaged in the Indian Railway Financial Code (Volume I).

**A. Impact of booking of expenditure to Capital instead of Revenue Grant**

In eight Zonal Railways<sup>45</sup> 22 cases of wrong booking of revenue expenditure to Grant No.16-Capital involving money value of ₹ 15.96 crore were noticed which resulted in:

- **Avoidable payment of Dividend** amounting to ₹ 2.14 crore.
- **Profit and Loss Account:** Understatement of Working expenses to the extent of ₹ 15.96 crore and excess dividend of ₹ 2.14 crore on the debit side of Profit and Loss Account.
- **Block Account and Balance Sheet:** Overstatement of value of Assets to the extent of ₹ 15.96 crore without actual acquisition under Capital in the Block Account and incorrect depiction of Capital investment and Assets in Balance Sheet. (Annexure 6)

**B. Impact of booking of expenditure to DRF instead of Revenue Grant**

In four Zonal Railways<sup>46</sup> 14 cases involving money value of ₹ 20.26 crore due to wrong booking of revenue expenditure to Grant No.16-DRF resulted in:

- **Loss of Interest on DRF Balances** to the extent of ₹ 3.30 crore
- **Final Account Current: On Receipt side** - Sequence Number shown in Account Current (Sq. No.) 23100-Interest on Fund balance and **On Outgoing side** Sq.No.86700-Deposit with Reserve Bank of India to the tune of ₹ 3.30 crore and Schedule No.11-Transactions adjusted under Bank Deposit.
- **Debt Head Report:** Understatement of fund balances under DRF amounting to ₹ 20.26 crore plus ₹ 3.30 crore due to excess withdrawals on account of wrong booking of expenditure and less interest thereof.
- **Profit and Loss Account:** Understatement of Working expenses to the extent of ₹ 20.26 crore (on the debit side) resulting in increase of surplus.
- **Block Account:** Overstatement of expenditure under DRF amounting to ₹ 20.26 crore in the Block Account.
- **Balance Sheet:** Incorrect depiction of fund balances under DRF to the tune of ₹ 20.26 crore plus interest on DRF amounting to ₹ 3.30 crore (on

<sup>45</sup> NR-2 (₹ 2.02 crore), (, SR- 5, (₹ 8.52crore), SER-3(₹ 0.73 crore),, SCR-2, (₹ 0.44 crore), NCR-1, (₹ 0.32 crore), NWR-2, (₹ 0.02 crore), SECR-2, (₹ 0.04 crore), SWR-5(₹ 3.87 crore),

<sup>46</sup> NR-9(₹ 14.27 crore), SCR-3, (₹ 0.92 crore) WR-1, (₹ 0.11 crore)& NCR-1(₹ 4.96 crore).

the Liabilities Side) and incorrect depiction of Capital investment and Asset value on both sides of Balance Sheet. (Annexure 7)

**C. Impact of booking of expenditure to Revenue Grants instead of booking to Capital, DRF and DF**

- **Excess payment of dividend:** In SR there was excess booking of expenditure of ₹ 1.94 crore under Capital. In four Zonal Railways<sup>47</sup> 8 cases involving money value of ₹ 7.99 crore due to short booking of expenditure resulted in net excess payment of dividend to the tune of ₹ 0.05 crore.
- **Incorrect calculation of Interest on DRF Balances:** In three Zonal Railways<sup>48</sup> five cases of excess booking of expenditure amounting to ₹ 13.82 crore under DRF were noticed due to wrong classification. In five Zonal Railways<sup>49</sup> 25 cases worth ₹ 31.45 crore of short booking of expenditure were noticed. This has resulted in net excess interest on DRF to the tune of ₹ 1.92 crore.
- **Impact on Final Account Current: On Receipt side** Sq.No.23100-More Interest on Fund balance **and On Outgoing side** Sq.No.86700-Deposit with Reserve Bank of India to the tune of ₹ 1.92 crore and Schedule No.11-Transactions adjusted under Bank Deposits was reflected.
- **Impact on Dividend Statement:** Excess dividend amounting to ₹ 0.05 crore was paid to general revenues.
- **Impact on Debt Head Report:** Due to short exhibition of withdrawals on account of wrong booking of expenditure amounting to ₹ 17.63 crore, the balance under DRF was overstated.
- **Impact on Profit and Loss Account:** The working expenses were overstated by ₹ 32.36 crore and excess dividend of ₹ 0.05 crore was paid to general revenues.
- **Impact on Block Account:** The expenditure under DRF and DF in the Block Account to the extent of ₹ 17.63 crore and ₹ 8.59 crore respectively were understated.
- **Impact on Balance Sheet:** The balance under DRF amounting to ₹ 17.63 crore and DF amounting to ₹ 8.59 crore on the Liabilities Side was depicted incorrectly. (Annexure 8)

**D. Impact of booking of expenditure to Capital instead of booking to DRF/ DF**

<sup>47</sup> NR-2(₹ 0.14 crore), SR-1, (₹ 6.86 crore), SCR-3(₹ 0.12 crore) & NWR-2. (₹ 0.87 crore).

<sup>48</sup> SR-2(₹ 10.84 crore), ECOR-1- (₹ 2.46 crore) & NCR-2 (₹ 0.52 crore)

<sup>49</sup> NR-13, (₹ 27.19 crore), SR-2(₹ 1.33 crore), SCR-6(₹ 0.67 crore), NCR-3(₹ 2.18 crore) & NWR-1(₹ 0.08 crore),

- **Avoidable Payment of Dividend:** In six Zonal Railways<sup>50</sup> the expenditure incurred was wrongly booked under Capital instead of DF in 11 cases involving ₹ 6.38 crore which resulted in excess payment of dividend of ₹ 1.21 crore.
- **On Debt Head Report:** Balance under DRF and DF amounting to ₹ 84.82 crore and ₹ 6.38 crore respectively was overstated due to wrong booking of expenditure.
- **On Profit and Loss Account:** The expenditure on the debit side of Profit and Loss Account was overstated due to excess dividend amounting to ₹ 1.21 crore paid to general revenues.
- **On Block Account:** The expenditure under DRF and DF shown in the Block Account was understated.
- **On Balance Sheet:** The balance under DRF and DF on the Liabilities Side and value of block assets shown on both the sides of Balance Sheet were depicted incorrectly. (Annexure 9)

### 3.7.2 Impact of booking of expenditure to DRF instead of DF

- I. **Loss of interest on DRF:** In seven Zonal Railways<sup>51</sup> expenditure was wrongly booked under DRF instead of DF in 20 cases amounting to ₹ 15.78 crore, resulting in loss of interest to the tune of ₹ 2.36 crore. Similarly in five Zonal Railways<sup>52</sup> ten cases amounting to ₹ 2.19 crore expenditure was short booked under DRF resulting in excess interest to the tune of ₹ 0.37 crore. Hence the net loss of interest on DRF was ₹ 1.99 crore.
- II. **On Final Account Current: On Receipt side** Sq.No.23100- Loss of Interest on Fund balance **and On Outgoing side** Sq.No.86700-Deposit with Reserve Bank of India to the tune of ₹ 1.99 crore and the balances in Bank Deposits shown in Schedule No.11-Transactions adjusted under Bank Deposits were reflected.
- III. **On Debt Head Report:** The balance under DRF amounting to ₹ 21.34 crore plus interest of ₹ 1.99 crore and balance under DF amounting to ₹ 0.09 crore on account of wrong booking of expenditure were understated.
- IV. **Impact on Final Accounts:**
  - (i) **Block Account:** Expenditure under DRF in the Block Account amounting to ₹ 21.34 crore was overstated.

<sup>50</sup> NR-2 (₹ 0.40 crore), SCR-2 (₹ 0.78 crore), WR-1 (₹ 3.43 crore), ECOR-1 (₹ 0.37 crore), NCR-4 (₹ 0.72 crore), SWR-1 (₹ 0.68 crore).

<sup>51</sup> ER-1, (₹ 1.44 crore), NR-4 (₹ 3.67 crore), SR-1 (₹ 2.83 crore), SCR-7 (₹ 7.42 crore), ECOR-3 (₹ 0.19 crore), NCR-3 (₹ 0.17 crore) & SWR-1 (₹ 0.06 crore)

<sup>52</sup> NR-3 (₹ 0.67 crore), SCR-2 (₹ 0.68 crore) ECOR-1 (₹ 0.17 crore), NCR-3 (₹ 0.47 crore) & SWR-1 (₹ 0.20 crore)

- (ii) **Block Account:** Expenditure under DF in the Block Account amounting to ₹ 0.09 crore was overstated.
- (iii) **Balance Sheet:** Balance under DRF and DF on the Liabilities Side and value of block assets shown on both the sides of Balance Sheet were depicted incorrectly. (Annexure 10)

### 3.8 Follow up action with respect to Earnings, Deposit and Suspense Heads

As per para 922 of Indian Railway Financial Code (Volume I) if error affects a debt, deposit or remittance head, corrections should be made by transferring to the correct head of Account under which it should originally appear. However if the other head is Revenue grant or Earnings there is no scope for rectification as Revenue Accounting heads or Earnings are closed for the financial year.

During the review it is revealed that in seven Zonal Railways<sup>53</sup> and one Production unit no rectification was carried out in the books of Accounts in 12 cases amounting to ₹ 418.79 crore resulting in:

- ❖ Overstatement of earnings and consequent improvement in Operating Ratio. Few Important cases are:
  - i. In East coast Railway an advance of ₹ 2.45 crore in the year 2010-11 for works was credited as Earnings instead of Deposit Works. (Operating Ratio-0.01 per cent).
  - ii. In Northern Railway an irregular transfer of deposits worth ₹ 13.04 crore in the year 2010-11 & realization of mobilization advance to earnings worth ₹ 1.85 crore in the year 2011-12. (Operating Ratio-0.15 per cent in 2010-11).
  - iii. In Central Railway Service Tax collected on Wharfage and Demurrage Charges (₹ 13.56 crore in the year 2012-13 & ₹ 4.32 crore in the year 2013-14) was not remitted. (Operating Ratio-0.13 per cent-2012-13 & 0.04 per cent in 2013-14).
  - iv. In South Western Railway the unrealized under charges when matter was subjudice irregularly credited to earnings (Operating Ratio-7.93 per cent-2014-15).
- ❖ Overstatement of earnings in Profit and Loss Account resulting in more surplus to the extent of ₹ 402.15 crore being projected than actually earned.
- ❖ Incorrect depiction of balance under Indian Railway Deposits in the Debt Head Report and on the Liabilities Side of the Balance Sheet ₹ 34.23 crore.

<sup>53</sup> NCR-1(₹0.02 crore), SR- 1 (₹0.17 crore), ECOR-1 (₹ 2.45 crore), CR-2 (₹17.88 crore), SWR-1 (₹ 367.72 crore), NR-2 (₹14.89 crore, SCR-3 (₹0.86 crore) and ICF - 1 (₹14.80 crore)

- ❖ Incorrect depiction of balance under Miscellaneous Advances (Capital) [MAC] in Block Account to the tune of ₹ 1.85 crore.
- ❖ Incorrect depiction of amount under Traffic Suspense on the Asset side of Balance Sheet to the extent of ₹ 367.72 crore. (Annexure 11)

**3.9 Follow up action with respect to erroneous booking of Debits and Credits to Deposit Head instead of Final Heads (Revenue Grants and Capital Grant)**

The rectification of error can be done through operation of TWFA in case of Deposit heads and Capital Heads only. As Revenue Expenditure is closed for the financial year there is no scope of rectification of errors relating to Revenue Grants.

In nine Zonal Railways<sup>54</sup> 25 cases, despite wrong booking of expenditure amounting to ₹ 161.81 crore, no rectification has been carried out in the books of accounts as there relate either to Revenue expenditure or Earnings. One important case was CENVAT credits kept under Indian Railway Deposits instead of bifurcating to the respective revenue grants as Credits, effecting the key financial indicator i.e. Operating Ratio to the extent of 0.51 per cent in ECOR in the year 2014-15.

There were 6 cases involving money value of ₹ 36.64 crore due to wrong booking of expenditure to Indian Railway Deposit instead of Capital.

In SWR, cost of Pre-Stressed Concrete (PSC) sleepers worth ₹ 1.96 crore and subordinate debt amounting to ₹ 9.00 crore booked to Deposits similarly in NR, SR and WR expenditure relating works involving ₹ 25.04 crore also booked to Deposits.

There was wrong booking of expenditure to Capital Grant instead of Indian Railway Deposits in 5 cases involving ₹ 724.79 crore.

In SWR, expenditure amounting to ₹ 665.17 crore was booked to Capital Grant in addition to Railway Share. In ICF there was delay in adjustment of expenditure on POH of Wagons to outsiders resulting in excess expenditure under WMS worth ₹ 59.33 crore and there was a case of Cost of replacement of OFC cable worth ₹ 0.29 crore on NCR.

The impact of non-rectification led to:

- (i) Excess Payment of dividend of ₹ 5.53 crore and short payment of dividend of ₹ 1.46 crore thus resulting in net excess payment of dividend to the tune of ₹ 4.07 crore.
- (ii) **Final Account Current and Debt Head Report:** Incorrect depiction of expenditure under Indian Railway Deposits, Capital etc. and balances under Indian Railway Deposits in Debt Head Report and Balance Sheet.

<sup>54</sup> ER-2(₹ 40.70 crore), NR-1(₹ 3.63 crore), SR-2(₹ 6.26 crore), SCR -6 (₹ 37.04 crore), WR-2 (₹ 0.40 crore), ECoR - 6 (₹ 67.82 crore), NCR -2 (₹ 2.31 crore), NWR-3(₹ 3.31 crore), SWR-1(₹ 0.34 crore).



- (iii) **Block Account:** Incorrect depiction of expenditure incurred on acquisition of assets in the Block Account. (Annexure 12)

### 3.10 Follow up action with respect to erroneous booking in Revenue Grants

The mistakes noticed before closure of Capital and Revenue Accounts are to be rectified through journal voucher. Mistakes noticed after closure of Capital and Revenue Accounts, a suitable note against the original entry is sufficient.

The ZRs are not adhering to the codal provisions and no suitable note against the original entry is being kept on record and made in the Grant Accounts.

In Five ZRs<sup>55</sup> Capital and Revenue Accounts are not being prepared.

Generally, the Zonal Railways furnish a 'NIL' statement of misclassification. Thus Railway Administration is not conducting the necessary exercise of verification of booking of expenditure in the books of Accounts with the initial vouchers as envisaged in the Codes and brings out the cases in the list of misclassifications.

The mistakes and misclassification pointed out during the check of Final Account Current for March are being rectified by the Zonal Railway through Correction Slips to the Final Account Current. The misclassifications and mistakes noticed during certification of Appropriation Accounts are appended to the Appropriation Accounts as Annexure-J-Statement of Mis-classification and Important Mistakes in Accounting.

### 3.11 Conclusion

Though the Public Accounts Committee in its various reports has expressed serious concern over large number of misclassification occurring in the Accounts of Railways and despite repeated assurances given by the Ministry of Railways in their Action Taken Notes that necessary remedial measures have been taken to ensure that misclassification is curbed, numerous instances of misclassification are still being noticed by Audit. The Ministry of Railways has issued circulars/letters to Zonal Railways. However, the Zonal Railways are yet to strictly follow the procedure envisaged in the Codes for rectification of errors pointed out during the course of certification of Appropriation Accounts.

### 3.12 Recommendations

*Following measures are suggested to avoid misclassification and mistakes in accounting to enforce financial discipline:*


- *Effective co-ordination between Executive Departments and Accounts to detect and rectify the mistakes before the end of*

<sup>55</sup> NEFR, SR, SCR, ECR & WCR,

*financial year and to take effective measures so as to keep stringent check on misclassifications in accounting needs to be established.*

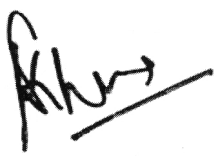
- *Internal Audit should identify the thrust areas where misclassifications are committed and fine tune the internal control mechanism suitably.*
- *Compendium of common/likely mistakes should be prepared and circulated for guidance of staff. A checklist for guidance of staff in view of audit observations should be prepared so that mistakes are not committed year after year.*

New Delhi  
Dated: 26 December 2016

  
(NAND KISHORE)  
Deputy Comptroller and Auditor General

Countersigned

New Delhi  
Dated: 26 December 2016

  
(SHASHI KANT SHARMA)  
Comptroller and Auditor General of India