

## Chapter 2 Appropriation Accounts

This Chapter outlines Indian Railways (IR) financial accountability and budgetary practices through audit of Appropriation Accounts.

Railway Budget is an instrument of Parliamentary Financial Control and at the same time, an important management tool for Ministry of Railways, Government of India. Parliamentary Financial Control is secured not only by the fact that all 'voted' expenditure receives Parliament's prior approval, but also by the system of reporting back to it, the actual expenditure incurred against the Grants/Appropriations voted/approved by Parliament. The statements, which are prepared for presentation to Parliament, comparing the amount of actual expenditure with the amount of Grants voted by Parliament and Appropriations sanctioned by the President, are called the “**Appropriation Accounts**”.

Appropriation Accounts detail the accounts related to expenditure of IR for a particular year as compared to the appropriations for different purposes as specified in the schedules appended to the Appropriation Act passed by Parliament. These Accounts list the original budget allocation, supplementary grants, surrenders and re-appropriations distinctly and indicate the actual capital and revenue expenditure on various specified services vis-à-vis those authorized by the Appropriation Act in respect of both charged and voted items of budget. Appropriation Accounts thus facilitate management of finances and monitoring of budgetary provisions and are therefore complementary to Finance Accounts.

The Appropriation Accounts are signed both by the Chairman, Railway Board and by the Financial Commissioner, Railways and transmitted to the Comptroller and Auditor General (C&AG) of India for audit. Audit by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure actually incurred under various grants is within the authorization given under the Appropriation Act and also whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.

### 2.1 Summary of Appropriation Accounts

IR is authorized for expenditure through operation of 16 Grants comprising of 15 Revenue Grants<sup>24</sup> (Grants number 1 to 15) and one Capital Grant<sup>25</sup> (Grant No. 16). Revenue grants were financed through the internal resources generated by IR through its earnings during the year. The Capital grant was funded mainly through the General Budget, internal resources and share of “diesel cess” from Central Road Fund<sup>26</sup> (CRF).

Appropriation Accounts (Railways) for the sums expended during the year ended 31 March 2017, compared with the sums authorized in the Original and Supplementary Demands for Grants for expenditure and passed under Article 114 and 115 of the Constitution of India are summarized in Table 2.1.

<sup>24</sup> Grants detailing working expenses and other revenue expenditure as voted by Parliament.

<sup>25</sup> Grant detailing expenditure on Assets Acquisition, Construction and Replacement voted by Parliament.

<sup>26</sup> A dedicated Central Road Fund was created by the Central Government for collection of cess from petrol and diesel. A share of collection is provided to Railways for construction of road over/under bridges and safety works at unmanned railway crossings.

## Summary of Appropriation Accounts 2016-17

(₹ in crore)

| Table 2.1 (a) Summary of Appropriation Accounts (2016-17)-Revenue Expenditure  |   |                                  |                     |                        |                    |                            |
|--|---|----------------------------------|---------------------|------------------------|--------------------|----------------------------|
| Particulars  |   | Original Grant/<br>Appropriation | Supplementary Grant | Total Sanctioned Grant | Actual Expenditure | Saving (-) /<br>Excess (+) |
| Revenue  | Voted   | 239607.85                        | 3050.00             | 242657.85              | 210752.43          | -31905.42                  |
|  | Charged   | 149.09                           | 12.23               | 161.32                 | 138.83             | -22.49                     |
| (A) Total Revenue Expenditure  | Voted and Charged   | <b>239756.94</b>                 | <b>3062.23</b>      | <b>242819.17</b>       | <b>210891.26</b>   | <b>-31927.91</b>           |
| Less   | Credit  |                                  |                     |                        | <b>5046.24</b>     |                            |
|  | Amount recouped from Pension Fund   |                                  |                     |                        | <b>40462.53</b>    |                            |
| <b>Net Revenue Expenditure</b>   |   |                                  |                     |                        | <b>165382.49</b>   |                            |
| <i>Note: 1. Credit of ₹ 5,046.24 crore was on account of recovery towards cost of staff from non-railway departments, commission charges recovered from Defence, materials released from works, share of credits for freight charges on railway materials, value of cinders and coal ash sold, credit for electric energy supplied to outsiders, sale proceeds of railway canteens, amount met from Debt Service Fund etc.</i> |   |                                  |                     |                        |                    |                            |
| Table 2.1 (b) Summary of Appropriation Accounts (2016-17)-Capital Expenditure  |   |                                  |                     |                        |                    |                            |
| Particulars  |   | Original Grant/<br>Appropriation | Supplementary Grant | Total Sanctioned Grant | Actual Expenditure | Saving (-) /<br>Excess (+) |
| Capital  | Voted   | 117513.71*                       | 1519.45             | 119033.16              | 113096.22          | -5936.94                   |
|  | Charged   | 62.25                            | 195.52              | 257.77                 | 268.40             | 10.63                      |
| (B) Total Capital Expenditure  | Voted and Charged   | <b>117575.96</b>                 | <b>1714.97</b>      | <b>119290.93</b>       | <b>113364.62</b>   | <b>-5926.31</b>            |
| Less   | Credit  |                                  |                     |                        | <b>46921.11</b>    |                            |
|  | Amount met from Funds (Depreciation Reserve Fund, Development Fund, Capital Fund) i.e. Internal resources |                                  |                     |                        | <b>10479.84</b>    |                            |
|  | Amount met from Railway Safety Fund   |                                  |                     |                        | <b>10732.03</b>    |                            |
| Capital Expenditure from GBS   |   |                                  |                     |                        | <b>45231.64</b>    |                            |
| Capital Expenditure from GBS and Internal Resources  |   |                                  |                     |                        | <b>55711.48</b>    |                            |
| (A)+(B) Grand Total (Revenue and Capital) as per Appropriation Accounts 2016-17  | Voted and Charged   | <b>357332.90</b>                 | <b>4777.20</b>      | <b>362110.10</b>       | <b>324255.88</b>   | <b>-37854.22</b>           |
| Less : Credits/recoveries and amount recouped/met from Funds   |   |                                  |                     |                        | <b>113641.75</b>   |                            |
| <b>Net Expenditure (Revenue and Capital) as per Appropriation Accounts</b>   |   |                                  |                     |                        | <b>210614.13</b>   |                            |
| <b>Total Expenditure as per Finance Accounts (2016-17)</b>   |   |                                  |                     |                        | <b>210614.13</b>   |                            |
| <i>* This excludes ₹ 34,220 crore given by Ministry of Finance out of National Investment Fund (NIF) and includes ₹ 10780 crore from Central Road Fund (CRF) as part of GBS.</i>   |   |                                  |                     |                        |                    |                            |
| <i>Note: 1. Credit under Capital (₹ 46,921.11 crore) includes credit for released materials, clearance under Suspense Heads (Stores Suspense, Workshop Manufacture Suspense and Miscellaneous Advance (Capital)).</i>  |   |                                  |                     |                        |                    |                            |
| Table 2.1 (c) Capital Expenditure in Indian Railways (2016-17)   |   |                                  |                     |                        |                    |                            |
| Particulars  |   |                                  |                     |                        | ₹ in crore         |                            |
| Actual Capital Expenditure as per Appropriation Account  |   |                                  |                     |                        | 113364.62          |                            |
| Less: Credits/recoveries in reduction of expenditure   |   |                                  |                     |                        | 68132.98           |                            |
| Expenditure from GBS   |   |                                  |                     |                        | 45231.64           |                            |
| Add: Expenditure from Internal resources   |   |                                  |                     |                        | 10479.84           |                            |
| Add: Expenditure from Extra Budgetary Resources  |   |                                  |                     |                        | 52578.66           |                            |
| <b>Total Capital Expenditure</b>   |   |                                  |                     |                        | <b>108290.14</b>   |                            |

The above Table lists out the total expenditure of IR as ₹ 3,24,255.88 crore during the financial year 2016-17, of which nearly 65.04 *per cent* was spent on revenue grants which include working expenses on administrative, operational and maintenance activities while 34.96 *per cent* was spent on capital grant dealing with creation and augmentation of infrastructure facilities through Assets Acquisition, Construction and their Replacement/Renewal. The above Table also indicates savings of 13.15 *per cent* (₹ 31,927.91 crore) under revenue grants and savings of 4.97 *per cent* (₹ 5,926.31 crore) under capital grant against the sanctioned provisions available in 2016-17.

An analysis of grant-wise expenditure revealed that the net saving of ₹ 37,854.22 crore was a result of savings of ₹ 37,887.35 crore under all fifteen revenue grants, nine revenue charged appropriations<sup>27</sup> and two segments of Capital Grant adjusted by an excess of ₹ 33.13 crore in two revenue Charged appropriations one segment of Capital grant and three segments of Capital appropriations as are shown in *Appendix-2*. However, the savings of ₹ 31,927.91 crore under revenue grants reflect over provisioning disregarding the realistic flow of revenue.

### **2.1.1 Revenue Grants**

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

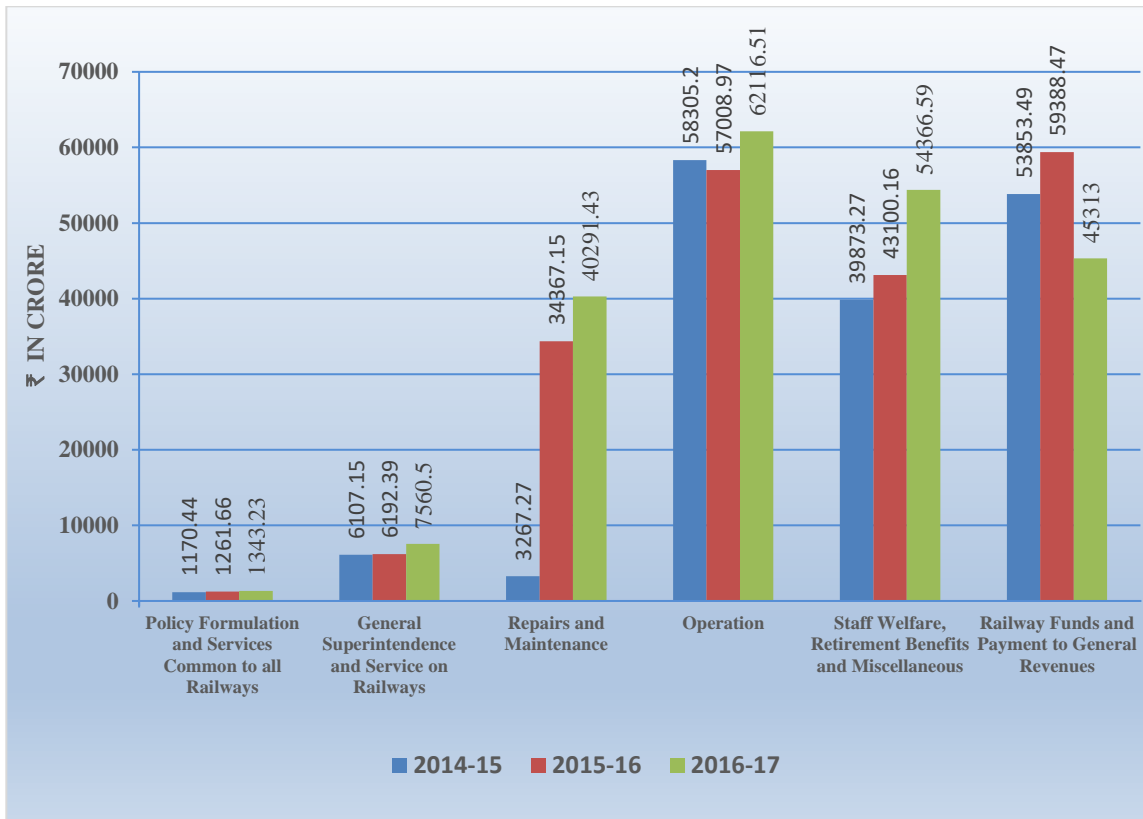
**Table 2.2- Grants operated by Railways**

| No. | Particulars  | Six Distinct Group                                     |
|-----|--|--|
| 1   | Railway Board  | Policy Formulation and Services Common to all Railways |
| 2   | Miscellaneous Expenditure (General)  |  |
| 3   | General Superintendence and Service on Railways  | General Superintendence and Service on Railways        |
| 4   | Repairs and Maintenance of Permanent Way and Works   | Repairs and Maintenance                                |
| 5   | Repairs and Maintenance of Motive Power  |  |
| 6   | Repairs and Maintenance of Carriages and Wagons  |  |
| 7   | Repairs and Maintenance of Plant and Equipment   |  |
| 8   | Operating Expenses-Rolling Stock and Equipment   | Operation  |
| 9   | Operating Expenses-Traffic   |  |
| 10  | Operating Expenses-Fuel  |  |
| 11  | Staff Welfare and Amenities  | Staff Welfare, Retirement Benefits and Miscellaneous   |
| 12  | Miscellaneous Working Expenses   |  |
| 13  | Provident Fund, Pension and Other Retirement Benefits  |  |
| 14  | Appropriation to Funds   | Railway Funds and Payment to General Revenues          |
| 15  | Dividend to General Revenues, Repayment of loans taken from General Revenues and Amortization of over Capitalization |  |

<sup>27</sup> *Appropriation refers to expenditure charged on Consolidated Fund of India.*

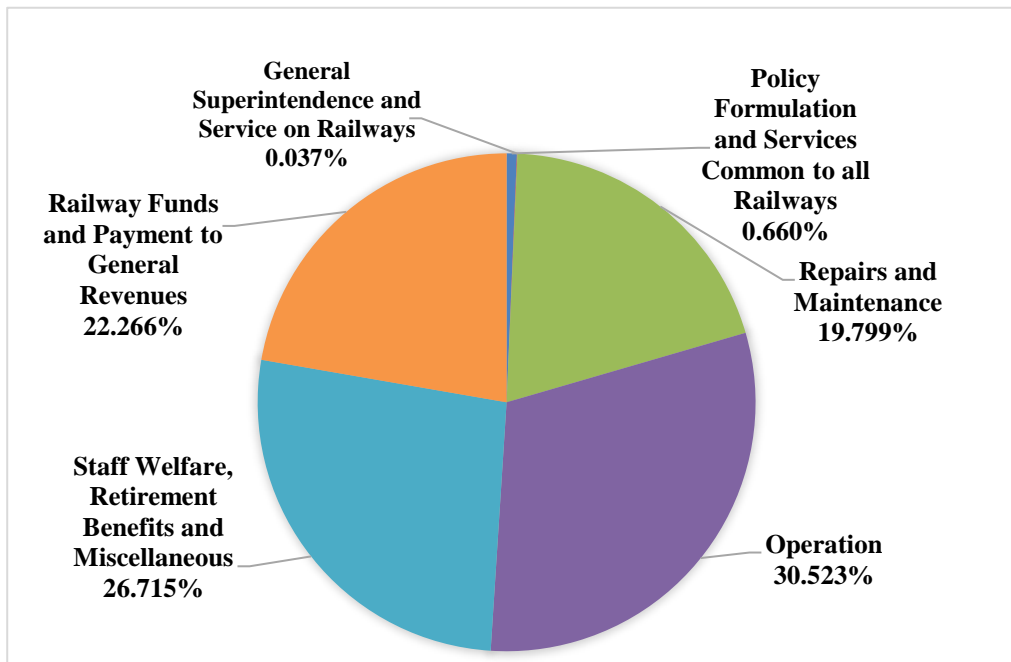
The following figure depicts group-wise expenditure for last three years which shows an increasing trend in expenditure of Indian Railways:

Figure 2.1 Trend of Revenue Expenditure-Group-wise during 2014-15 to 2016-17



The following figure depicts the group-wise expenditure in 2016-17:

Figure - 2.2 Group wise Revenue Expenditure (2016-17)



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

**Table- 2.3 Group wise Estimates, Expenditure and Variation (2016-17)**

| (₹ in crore)  |                                  |                         |                        |                    |  |                      |
|---|----------------------------------|-------------------------|------------------------|--------------------|--|----------------------|
| Particulars   | Original Grant/<br>Appropriation | Supplementary Provision | Total Sanctioned Grant | Actual Expenditure | Variation w.r.t. Sanctioned Grant<br>(-) Saving/<br>(+) Excess | Percentage variation |
| <b>Policy Formulation and Services Common to all Railways</b> | 1700.01                          | 0.00                    | 1700.01                | 1343.23            | (-) 356.78   | (-) 20.98            |
| <b>General Superintendence and Service on Railways</b>        | 8361.84                          | 0.00                    | 8361.84                | 7560.50            | (-) 801.34   | (-) 9.58             |
| <b>Repairs and Maintenance</b>                                | 42453.91                         | 0.43                    | 42454.34               | 40291.43           | (-) 2162.91  | (-) 5.09             |
| <b>Operation</b>  | 62479.38                         | 3050.00                 | 65529.38               | 62116.51           | (-) 3412.87  | (-) 5.21             |
| <b>Staff Welfare, Retirement Benefits and Miscellaneous</b>   | 60751.16                         | 11.80                   | 60762.96               | 54366.59           | (-) 6396.37  | (-) 10.52            |
| <b>Railway Funds and Payment to General Revenues</b>          | 64010.64                         | 0.00                    | 64010.64               | 45213.00           | (-) 18797.64   | (-) 29.36            |

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

- **Indian Railways Policy Formulation**

Savings in expenditure due to less expenditure on staff cost, office automation computer cell, furniture, telephone, printing, slow progress of survey work, less materialisation of contractual liabilities and decrease in number of passengers on worked lines during the year.

- **General Superintendence and Service on Railways**

Savings in expenditure due to less expenditure on staff cost, less honorarium and contingencies, less cases of leave encashment, less electricity charges, non-filling of vacancies, materialization of less contractual liabilities and other expenses during the year.

- **Repairs and Maintenance**

Reduction in expenditure towards salary and wages, staff cost, establishment charges, contingencies, materialization of less contractual payments, less expenditure on procurement of non-stock items, less drawl of stores from stock, less adjustment of debits, decrease in repair activities, less expenditure towards wages and material on Periodical Overhaul (POH), less expenditure on power supply and electrical instruments and less expenditure on IT infrastructure maintenance during the year than anticipated.

- **Operation**

Reduction in expenditure towards staff cost, materialization of less contractual obligations, less drawl of lubricants and consumable stores from stock, less expenditure on publicity and contingencies, less expenses towards freight and handling charges, sales tax/excise duty reduction in cost of High Speed Diesel (HSD) oil, less consumption of HSD oil due to less activity of diesel locos, less expenditure towards consumption of electric energy for traction services, less adjustment of debits and less adjustment for payment of leasing charges other than Indian Railway Finance Corporation (IRFC) during the year than anticipated.

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

Reduction in expenditure due to less staff cost, receipt of less claims for reimbursement of tuition fees, less expenditure towards purchase of medicines and repair of medical equipments, less expenditure on sports and staff canteen, less drawl of stores from stock, less materialisation of contractual obligations, less expenditure on claims prevention organization, less expenditure towards compensation claims, less payment towards ex-gratia, less training activities, less procurement of stores and adjustment of less debits, less commutation of pension, less debit towards family pension from pension disbursing Authorities, less number of finalization of death cum retirement gratuity cases, less expenditure towards leave encashment for pension optees for less settlement of cases and less expenditure on Deposit Linked Insurance Scheme during the year, than anticipated.

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

Reduction in expenditure due to deterioration of net resource position by end of the year and nil payment of dividend to General Revenue due to waiver of the dividend payable during the year.

Grant wise authorisation and expenditure under the revenue and capital grants and appropriations are detailed in *Appendix-2*.

**2.2 Financial Accountability and Budget Management: Excess over Budget Provision**

Table 2.4 gives the grants and appropriations wherein expenditure was incurred in excess of authorized expenditure during 2016-17.

**Table 2.4 Excess Expenditure (2016-17)**

(₹ in crore)

| S. No.                 | Particulars   | Original Provision | Supplementary provision | Actual Expenditure | Excess      |
|------------------------|---|--------------------|-------------------------|--------------------|-------------|
| <b>Revenue-Voted</b>   |   |                    |                         |                    |             |
|                        | Nil   |                    |                         |                    |             |
| <b>Revenue-Charged</b> |   |                    |                         |                    |             |
| 1                      | Appropriation No. 4- Working Expenses- Repairs and Maintenance of Permanent Way and Works | 1.50               | 0.21                    | 1.79               | 0.08        |
| 2                      | Appropriation No. 7- Working Expenses- Repairs and Maintenance of Plant and Equipment     | 0.50               | 0.21                    | 0.72               | 0.01        |
|                        | <b>Total- Revenue-voted and Charged</b>   | <b>2.00</b>        | <b>0.42</b>             | <b>2.51</b>        | <b>0.09</b> |

| Capital- Voted  |  |                 |               |                 |              |
|-----------------|--|-----------------|---------------|-----------------|--------------|
| 16              | Railway Safety Fund                      | 10780.30        | 0             | 10802.72        | 22.42        |
|                 | <b>Total Voted –Revenue and Capital</b>  | <b>10780.30</b> | <b>0</b>      | <b>10802.72</b> | <b>22.42</b> |
| Capital-Charged |  |                 |               |                 |              |
| 16              | Capital                                  | 49.17           | 170.83        | 228.05          | 8.05         |
|                 | Railway Funds                            | 13.08           | 7.60          | 21.11           | 0.43         |
|                 | Railway Safety Fund                      | 0               | 17.09         | 19.23           | 2.14         |
|                 | <b>Total Charged</b>                     | <b>62.25</b>    | <b>195.52</b> | <b>268.39</b>   | <b>10.62</b> |
|                 | <b>Total Capital-Voted and Charged</b>   | <b>10842.55</b> | <b>195.52</b> | <b>11071.11</b> | <b>33.04</b> |
|                 | <b>Grand Total – Capital and Revenue</b> | <b>10844.55</b> | <b>195.94</b> | <b>11073.62</b> | <b>33.13</b> |

Under revenue there was excess expenditure of ₹ 0.09 crore in charged appropriations in Appropriation No.4 Working Expenses- Repairs and Maintenance of Permanent Way and Works and Appropriation No.7- Working Expenses – Repairs and Maintenance of Plant and Equipment in spite of obtaining supplementary provision.

Under capital there was excess expenditure of ₹ 22.42 crore in one segment of the Capital Grant No. 16-Railway Safety Fund. Reason for excess expenditure under the segment was due to materialization of more store debits than anticipated, more materialization of contractual payments than anticipated and better progress of works.

There was an excess expenditure of ₹ 10.62 crore in all the three segments of Capital charged appropriations in spite of obtaining supplementary provision. In charged appropriation of RSF, there was no original provision. The reasons for excess expenditure were attributed to more expenditure towards materialization of more decretal payments, than anticipated. However, the excess expenditure was minor under charged appropriations.

### *Trend of Excess in the Grants and Appropriations*

**Table 2.5 Excess Expenditure during the last three years**

(₹ in crore)

| Year    | No of Voted Grant | No. of Charged Appropriation | Original Provision | Supplementary Provision | Actual Expenditure | Excess | Growth rate in percent |
|---------|-------------------|------------------------------|--------------------|-------------------------|--------------------|--------|------------------------|
| 2014-15 | 3                 | 3                            | 44,508.75          | 2,818.12                | 47,817.24          | 490.37 | -81.97                 |
| 2015-16 | 1                 | 5                            | 907.37             | 2.26                    | 985.50             | 75.87  | -546.33                |
| 2016-17 | 1                 | 3                            | 10844.55           | 195.94                  | 11073.62           | 33.13  | -128.93                |

Railways have incurred excess expenditure of ₹ 33.13 crore (Voted ₹ 22.42 crore and Charged ₹ 10.71 crore) in the year 2016-17. It can be seen in Table 2.5, the amount of excess expenditure has decreased slightly in comparison to the excess expenditure incurred during the year 2014-15 and 2015-16. Though MoR has been applying the mechanism of budgetary control since 2015-16 by integrating Indian Railways Accounting Units with the Railway Board through Integrated Pay roll and Accounting System (IPAS), still there was excess expenditure in 2016-17.

Excess expenditure, whatever the quantum, is ‘unauthorised expenditure’ portraying lack of financial discipline. Excess expenditure above the budgetary provisions sanctioned by the Parliament either at the Budget Grant stage or Supplementary Grant Stage, does not augur well for fiscal prudence besides undermining the Parliamentary control.

The excesses over the budgetary sanctions require regularization by Parliament under Article 115(1) (b) of the Constitution of India.

**2.3 Capital Grant No. 16-Assets, Acquisition, Construction and Replacement**

IR operates one Grant for capital expenditure. It deals with expenditure on construction, acquisition and replacement of assets of IR. This grant has three segments and draws its funding from three distinct sources:

- **Capital**-budgetary support advanced by general budget of Government of India,
- **Railway Funds**-internal resources kept under three different reserves<sup>28</sup>,
- **Railway Safety Fund**-financed by Railways' share of diesel cess from Central Road Fund, and

Re-appropriation of funds from one segment of Grant to another segment is not permissible.

Segment wise allocation and expenditure is given in table 2.6 below:

**Table 2.6 Segment wise Expenditure under Grant No. 16**

(₹ in crore)

| Particulars          | Original Provision | Supplementary provision | Total sanctioned provisions | Actual Expenditure | Saving (-)/ Excess (+) |
|----------------------|--------------------|-------------------------|-----------------------------|--------------------|------------------------|
| <b>Voted</b>         |                    |                         |                             |                    |                        |
| Capital              | 90070.35           | 1519.45                 | 91589.80                    | 90186.63           | (-) 1403.17            |
| Railway Funds        | 16663.06           | 0                       | 16663.06                    | 12106.87           | (-) 4556.19            |
| Railway Safety Fund  | 10780.30           | 0                       | 10780.30                    | 10802.72           | (+) 22.42              |
| <b>Total Voted</b>   | <b>117513.71</b>   | <b>1519.45</b>          | <b>119033.16</b>            | <b>113096.22</b>   | <b>(-) 5936.94</b>     |
| <b>Charged</b>       |                    |                         |                             |                    |                        |
| Capital              | 49.17              | 170.83                  | 220.00                      | 228.05             | (+) 8.05               |
| Railway Funds        | 13.08              | 7.60                    | 20.68                       | 21.11              | (+) 0.43               |
| Railway Safety Fund  | 0                  | 17.09                   | 17.09                       | 19.23              | (+) 2.14               |
| <b>Total Charged</b> | <b>62.25</b>       | <b>195.52</b>           | <b>257.77</b>               | <b>268.39</b>      | <b>(+) 10.62</b>       |

Reasons for saving in voted grant in two segments (Capital & Railway Funds) and excess expenditure in one segment (RSF) have been explained segment wise as under.

➤ **Capital**

In 2016-17, provision of ₹ 91,589.80 crore was made for acquisition and construction of assets/rolling stocks etc. There was a net saving of ₹ 1,403.17 crore (1.53 per cent of the sanctioned grant), against the sanctioned provision, in this segment of the grant. Reasons for savings are less expenditure towards materialization of less contractual liabilities, less Completion of work, delayed/non finalization of tenders, Works transferred to RVNL, Works funded by EBR-IF in between the year, slow progress of work, less materialization/adjustment of store

<sup>28</sup> Reserve Funds were Depreciation Reserve Fund (DRF), Development Fund (DF) and Capital Fund (CF).



debits than anticipated, less execution of computerized works, decrease in activity of construction/acquisition of rolling stock than anticipated, less procurement of M&P items, less investment in government undertakings, decrease in consumption of fuels etc.

### ➤ Railway Funds

Appropriation Accounts for 'Railway Funds' under Grant No. 16 are financed from the internal resources of IR either by charging to 'Working Expenses' (DRF) or from 'Net Revenue Surplus' (DF and CF). Thus, performance of IR and availability of balances in the fund accounts impacts planning of expenditure under this segment of the grant. Source-wise break-up of sanctioned allocation and expenditure under Railway Funds is tabulated in Table 2.7.

**Table-2.7-Component of Railway Funds**

(₹ in crore)

| Particulars                           | Original Provision        | Supplementary provision        | Total sanctioned provisions        | Actual Expenditure        | Saving (-)/ Excess (+)        |
|---------------------------------------|---------------------------|--------------------------------|------------------------------------|---------------------------|-------------------------------|
| <b>Voted</b>                          |                           |                                |                                    |                           |                               |
| Depreciation Reserve Fund             | 7146.92                   | 0                              | 7146.92                            | 6606.93                   | (-) 539.99                    |
| <b>Particulars</b>                    |                           |                                |                                    |                           |                               |
|                                       | <b>Original Provision</b> | <b>Supplementary provision</b> | <b>Total sanctioned provisions</b> | <b>Actual Expenditure</b> | <b>Saving (-)/ Excess (+)</b> |
| Development Fund                      | 2516.14                   | 0                              | 2516.14                            | 2499.95                   | (-) 16.19                     |
| Capital Fund                          | 7000.00                   | 0                              | 7000.00                            | 3000.00                   | (-) 4000.00                   |
| <b>Total Voted</b>                    | <b>16663.06</b>           |                                | <b>16663.06</b>                    | <b>12106.88</b>           | <b>(-) 4556.18</b>            |
| <b>Charged</b>                        |                           |                                |                                    |                           |                               |
| Depreciation Reserve Fund             | 13.08                     | 7.39                           | 20.47                              | 19.81                     | (-) 0.66                      |
| Development Fund                      | 0                         | 0.20                           | 0.20                               | 1.30                      | (+) 1.10                      |
| Capital Fund                          | 0                         | 0                              | 0                                  | 0                         | 0                             |
| <b>Total Charged</b>                  | <b>13.08</b>              | <b>7.59</b>                    | <b>20.67</b>                       | <b>21.11</b>              | <b>(+) 0.44</b>               |
| <b>Grand Total -Voted and Charged</b> | <b>16676.14</b>           | <b>7.59</b>                    | <b>16683.73</b>                    | <b>12127.99</b>           | <b>(-) 4555.74</b>            |

Analysis of this segment of grant revealed that there were net savings of ₹ 4,555.74 crore (27.31 per cent of the sanctioned grant). Reasons for savings are less expenditure towards materialization of less contractual liabilities, Completion of work, delayed/non finalisation of tenders, slow progress of work, less materialisation/adjustment of store debits than anticipated, decrease in activity of construction/acquisition of rolling stock than anticipated, less procurement of M&P items and Works taken under RSF.

### ➤ Railway Safety Fund

This source of capital expenditure is funded by IR's share of diesel cess in Central Road Fund. Available fund is utilized for road safety works like manning of unmanned railway crossing and construction of road over/under bridges. There were an excess expenditure of ₹ 22.42 crore against sanctioned grant of ₹ 10,780.30 crore constituting 0.21 per cent during 2016-17.

Reason for excess expenditure under this segment are materialization of more store debits than anticipated, materialization of more contractual payments than anticipated on account of better progress of works.

**2.3.1 Withdrawal/Utilization of Funds**

The Table 2.8 below depicts the status of Budget Estimate and Actual with regard to ‘Appropriation to funds’ and ‘Amount utilized’ from the funds during the last three years:

**Table 2.8-Appropriation to Railway Funds and withdrawal there from during the last three years ended 31 March 2017**

(₹ in crore)

| Fund                  | Particulars                        | 2014-15   | 2015-16     | 2016-17      |
|-----------------------|------------------------------------|-----------|-------------|--------------|
| DRF                   | Appropriation to Fund(BE)          | 7,050.00  | 8,100.00    | 3,400.00     |
|                       | Appropriation to Fund(Actual)      | 7,975.00  | 5,800.00    | 5,400.00     |
|                       | Excess (+)/Short (-) appropriation | 925       | (-)2,300.00 | (+) 2,000.00 |
|                       | Expenditure/withdrawal from fund   | 7,286.93  | 7,588.95    | 4,982.01     |
| DF                    | Appropriation to Fund(BE)          | 300.00    | 5,750.00    | 2,515.00     |
|                       | Appropriation to Fund(Actual)      | 1,374.94  | 1,219.74    | 2,515.00     |
|                       | Excess (+)/Short (-) appropriation | 1,074.94  | (-)4,530.26 | 0            |
|                       | Expenditure/withdrawal from fund   | 2,611.07  | 2,931.6200  | 2,497.83     |
| CF                    | Appropriation to Fund (BE)         | 5,662.74  | 7,615.71    | 5,750.00     |
|                       | Appropriation to Fund (Actual)     | 6,233.36  | 5,798.24    | 2,398.00     |
|                       | Excess (+)/Short (-) appropriation | 570.62    | (-)1,817.47 | (-) 3,352.00 |
|                       | Expenditure/withdrawal from fund   | 5,449.24  | 6,324.74    | 3,000.00     |
| Total (Railway Funds) | Appropriation to Fund (BE)         | 13,012.74 | 21,465.71   | 11,665.00    |
|                       | Appropriation to Fund (Actual)     | 15,583.30 | 12,817.98   | 10,313.00    |
|                       | Excess (+)/Short (-) appropriation | 2,570.56  | (-)8,647.73 | (-) 1,352.00 |
|                       | Expenditure/withdrawal from fund   | 15,347.24 | 16,845.31   | 10,479.84    |

From the above, it can be seen that the appropriation to the funds was made under DF to the extent the working expenditure could bear. During 2016-17, there was a saving under this segment of capital expenditure by 0.60 per cent of Budget Provision.

DRF, which is created to meet the requirement of funds needed for renewal/replacement of existing over aged assets, is not being appropriated as per the life of the assets but the appropriation in the fund was made to the extent the working expenses could bear. During 2016-17, there was a saving under this segment of capital expenditure by 7.54 per cent of Budget Provision.

CF, to meet the expenditure on leased assets there was a saving under this segment of capital expenditure by 57.14 per cent of Budget provision.

## 2.4 Misclassification of Expenditure

Instances of misclassification of expenditure and other accounting mistakes had been noticed while verifying the Accounts of the Zonal Railways. Cases of misclassification of expenditure and important accounting mistakes have been listed in the “Appropriation Accounts of IR 2016-17-Detailed Accounts-Part II. These cases included misclassification of expenditure from one revenue grant to another and also from revenue to capital grant and vice-versa. Cases of misclassification of expenditure from Voted and Charged were also identified in audit.

The revised Annexure-J, containing cases of such misclassifications was not furnished by the MoR.

Some instances of misclassification of expenditure and receipts in the Accounts of the Zonal Railways during 2016-17 are mentioned below:

- **Misclassification between Revenue expenditure and Capital expenditure**

- (i) In **CR**, freight and incidental charges amounting to ₹ 20.78 crore was debited to Revenue Grant No. 12-Miscellaneous Working Expenses instead of Grant No.16 – Capital Expenditure (₹ 15.24 crore + ₹ 5.54 crore stores purchase section)
- (ii) **NR** Railway Administration has booked an amount of ₹ 0.14 crore towards miscellaneous work of TRD assets in Sahnewal-Amritsar section to Grant No.16 – Capital Expenditure instead of Grant No.07 - Repair and Maintenance of Plants and Equipments.
- (iii) In **NR**, expenditure amounting to ₹ 1.00 crore towards capitalized charges of deposit work was accepted and credited wrongly on Grant No. 16- Track Renewal instead of Grant No. 09 - Operating Expenses – Traffic
- (iv) In **SCR**, amount of ₹ 0.22 crore towards Deep Screening was booked under Grant No. 16 3100-DRF instead of Grant No.04 Repair and Maintenance of Permanent Ways and Works.
- (v) **SCR** booked an amount of ₹ 0.24 crore towards replacement of critical height OHE to Grant No. 04 Repair and Maintenance of Permanent Ways and Works instead of Grant No. 16 – DRF.
- (vi) In **SECR**, an amounting to ₹ 1.13 crore towards “Overhauling of 08 nos. tamping units of CSM/Duomatic Machine” was booked to DRF under works Grant – 16 instead of Grant No. 7 – Repair and Maintenance of Plant and Equipment.

- **Misclassification of expenditure under Revenue Grants**

- (i) In **NR**, an amount of ₹ 3.64 crore towards HSD Oil used for Generator Car was booked under Grant No. 10 - Operating

Expenses – Fuel instead of Grant No.08 - Operating Expenses - Rolling Stock and Equipment

- (ii) **NR** Administration. has booked an amount of ₹ 7.08 crore towards the cost of sanitation conservancy of coaches on Grant No. 06 - Repairs & Maintenance of Carriages and Wagons instead of Grant No. 08 - Operating Expenses - Rolling Stock and Equipment.
- (iii) **NR** Administration, has booked an amount of ₹ 1.53 crore towards the cost of mechanized coach cleaning to Grant No.06 - Repairs & Maintenance of Carriages and Wagons instead of Grant No. 08 - Operating Expenses - Rolling Stock and Equipment.
- (iv) In **SR**, amounting to ₹ 18.06 crore (₹ 4,67,78,300, ₹ 8,05,48,686, ₹ 5,30,48,148 and ₹ 2,18,925 ) towards salary & allowances of Gate Keeper booked under Grant No. 04 Repair Maintenance of Permanent Way and works instead of Grant No. 09 Operating Expenses – Traffic.
- (v) In **SCR**, an amount of ₹ 0.30 crore towards cleaning of shed premises was booked on Grant No. 05 – Repair & Maintenance of Motive Power instead of Grant No. 04 Repair Maintenance of Permanent Way and works.
- (vi) **SCR** has booked an amount of ₹ 0.11 crore towards Pay & Allowances to Grant No 03 – General Superintendence and Services instead of Grant No. 09 Operating Expenses – Traffic.
- (vii) **SCR** has booked an amount of ₹ 0.15 crore towards Pay & Allowances to Grant No 03 – General Superintendence and Services instead of Grant No. 07 Repair and Maintenance of Plant and Equipment
- (viii) In **SER**, an amount of ₹ 0.33 crore towards the cost of transporting of Goods was booked under Grant No.8 Operating Expenses - Rolling Stock and Equipment instead of Grant No. 09 – Operating Expenses – Traffic.

● **Misclassification of expenditure under Capital Grant**

- (i) In **NR**, an amount of ₹ 1.30 crore non-adjustment for the material issued to SSE/P.Way/Cons/AADR debited to Grant No.16 instead of DRF Account
- (ii) In **NCR**, an amount of ₹ 0.45 crore was booked to Grant No. 16 Capital PH – 1500 (Doubling) instead of PH – 1600 – yard remodeling.
- (iii) In **SECR**, expenditure of ₹ 640.29 crore towards Plan Head 14- Gauge Conversion & Plan Head – 11 – New Lines were booked under Grant No. 16 Railway Safety Fund instead of Grant No. 16 - Capital.

- **Misclassification of expenditure under Voted and Charged**
  - (i) In **SR**, an amount of ₹ 0.17 crore towards Arbitration fee was booked under Charged instead of Voted.
  - (ii) In **NWR**, an amount of ₹ 0.024 crore towards Arbitration charge was allocated to Charged Expenditure instead of Voted Expenditure.
- **Misclassification of receipts**
  - (i) In **CR**, an amount of ₹ 0.09 crore towards Interest and Maintenance charges of Railway siding received from the Private Party was booked to Deposit Goods instead of Abstract “Z” Misc. Receipts.

The PAC in its Nineteenth Report (16<sup>th</sup> Lok Sabha) observed that “The Committee are distressed to find despite their repeated exhortations, the Ministry of Railways have not been able to stop misclassification of expenditure in their future accounts.” Committee further stated that “It seems that no tangible action has been taken by the Ministry of Railways either to fix the responsibility against the responsible officers for such glaring mistakes or to revamp their existing accounting system as had been repeatedly recommended by the PAC. The Committee took a serious view of such callous approach on the part of the Ministry of Railways for not timely detecting such mistakes which led to derail the budgetary exercise. As major function of Accounts Department of Ministry of Railways are stated to be computerised with several applications to strengthen the various accounting activities, the Committee hope that the Ministry would now be able to overcome systemic lacunae/loopholes and progressive elimination of the misclassification syndrome in future”.

MoR in its reply stated that the PAC’s recommendations are noted for strict compliance. Apart from fixing responsibility for lapses at suitable levels MoR is committed for computerisation at various accounting activities to bring about efficiency and expediency in its functioning. It shall always remain the endeavour of MoR to avoid misclassification/mistakes altogether. Despite PAC’s remarks on misclassification, the instances of misclassification were noticed during 2016-17, too. Further, MoR in its ATN on Chapter 2 of the Audit Report No. 19 of 2014 mentioned that instructions have been reiterated to the Zonal Railways for strengthening/tightening the system and sensitize the staff to avoid misclassifications while booking expenditure, besides enforcing accountability for correctness of allocation of expenditure by taking up defaulting staff appropriately.

Despite issue of repeated instructions by the MoR, instances of misclassification have been continuing. Implementation of the instructions needs to be ensured by MoR.

### 2.5 Irregular Re-appropriation of Funds

As per detailed Demand for Grants (2016-17), a sum of ₹ 7,000 crore was provided under Capital Fund (under Plan Head 2200) to meet the expenditure towards payment of principal component of lease charges to IRFC. MOR, in the Revised Estimate (2016-17) included in the detailed Demands for Grants (2017-18), bifurcated the amount under Plan Head 2200, ₹ 2,000 crore under Capital (GBS) and ₹ 5,000 crore under Capital Fund. Later, at Final modification stage, the amount was re-adjusted and ₹ 4,000 crore was booked under Capital (GBS) and ₹ 3,000 crore under Capital Fund. In this connection, audit observed the following:

- i. As per the existing accounting policy of Railways, the principal component of lease charges is to be made from Capital Fund, Accordingly, the provision of ₹ 7,000 crore for meeting this expenditure was made under Capital Fund at the BE stage.
- ii. No provision for payment of principal component of lease charges was made under Capital (GBS) either in the Original Budget (2016-17) or in the Supplementary Demand for Grants for 2016-17. MOR, without having any sum under 'Capital' under Plan Head 2200, made provision of ₹ 2,000 crore in Revised Estimate (₹ 4,000 crore in Final Grant) which tantamount to re-appropriation of funds. Further, as no expenditure was contemplated under Plan Head 2200 under Capital (GBS) in the budget as approved by the Parliament, this was an irregular re-appropriation.
- iii. As per Para 376 of Indian Railway Financial Code (Volume I), under Grant 16, even though re-appropriation is permissible between various sub-heads of the Grant viz., various plan Heads, no re-appropriation of funds is permissible between Capital, Railway Funds (comprising Capital Fund, Development Fund and DRF).

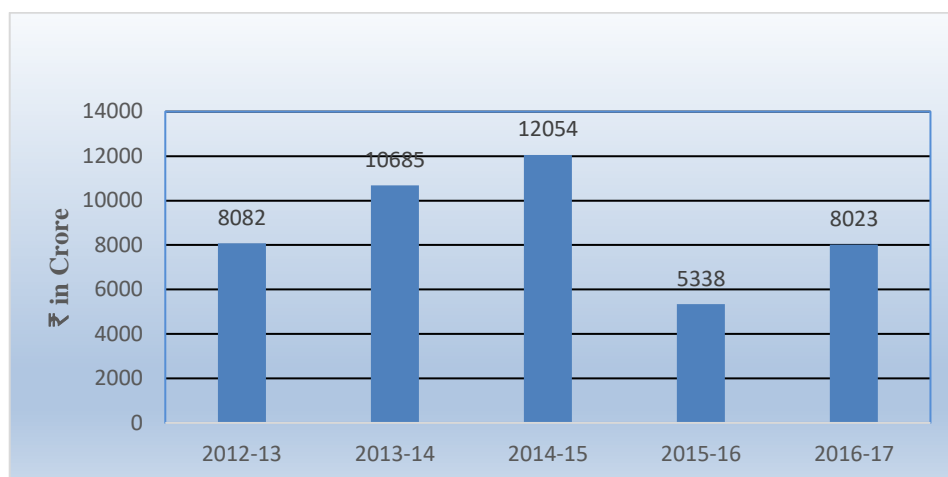
Re-appropriation of ₹ 4,000 crore to Capital without having any budget provision under Plan Head 2200 by way of re-appropriation was irregular.

MOR stated (December 2017) that they were compelled to redistribute fund for Plan Head 2200 between Capital and Capital Fund in view of resource constraints. They stated that as the capital component of lease charges was an unavoidable liability, part outlay from Capital was provided to discharge the obligation. Also, the rules for allocation of Capital and Capital Fund for payment of capital component of lease charges had been modified in July 2017 wherein it had been provided that capital component of lease charges shall be made from Capital, if adequate funds are not available under Capital Fund. However, the payment shall be first charge on Capital Fund, if sufficient funds are available. They further stated that during 2016-17 onwards there is also no liability on railways to pay dividend to General Revenues.

### 2.6 Unsanctioned Expenditure

All items of irregular expenditure incurred by IR, such as expenditure incurred in excess of sanctioned estimates, expenditure incurred without detailed estimates and miscellaneous overpayments etc. are noted in books of objectionable items (OIB) by the zonal railways administration and treated as unsanctioned expenditure.

Figure -2.3 Unsanctioned Expenditure



The unsanctioned expenditure, number of the items involved and percentage against total expenditure during the year from 2012-13 to 2016-17 are given in table 2.9 as under:

Table 2.9-Cases of Unsanctioned Expenditure

(₹ in crore)

| Year    | Total Expenditure | Unsanctioned Expenditure |                 | Percentage of total expenditure |
|---------|-------------------|--------------------------|-----------------|---------------------------------|
|         |                   | No. of Items involved    | Amount involved |                                 |
| 2012-13 | 226339            | 3324                     | 8082            | 3.57                            |
| 2013-14 | 253939            | 3078                     | 10685           | 4.21                            |
| 2014-15 | 285133            | 3744                     | 12054           | 4.23                            |
| 2015-16 | 301316            | 3567                     | 5338            | 1.77                            |
| 2016-17 | 324256            | 2826                     | 8023            | 2.47                            |

A review of such expenditure held under objection disclosed an increasing trend from 2012-13 to 2014-15 with increase in number of items. However, in comparison to the previous year, during 2015-16 the number of items has been reduced by 177 items and amount reduced by 55.71 per cent. But during 2016-17 a sharp increase in amount of unsanctioned expenditure registered whereas the number of the items reduced from 3567 to 2826.

## 2.7 Conclusion

The Appropriation Accounts reflects the comparison of the actual expenditure with the amount of grants voted by the Parliament and appropriations sanctioned by the President. Article 114 (3) of the Constitution provides that no money be withdrawn from the Consolidated Fund of India except under appropriations made by law passed in accordance with the provisions of the Article. Further, General Financial Rules 52 (3) stipulates that no disbursements be made which might have the effect of exceeding the total grant or appropriations authorised by the Parliament for a financial year except after obtaining a supplementary grant or an advance from the Contingency Fund.

During 2016-17, Ministry of Railways against the sanctioned grant<sup>29</sup> of ₹ 3,62,110.10 crore in respect of 15 Revenue Grants and one Capital Grant,

<sup>29</sup> Sum of Original and Supplementary Grants

incurred an expenditure of ₹ 3,24,255.88 crore. An analysis of grant-wise expenditure revealed that the net saving of ₹ 37,854.22 crore was a result of savings of ₹ 37,887.35 crore in all fifteen revenue grants, nine revenue charged appropriations and two segments of capital grant adjusted by an excess of ₹ 33.13 crore in two revenue charged appropriations, one segment of Capital grant and three segment of Capital appropriations. However, the savings were notional and reflected over provision which needs to be controlled.

The Public Accounts Committee (PAC) expressed their displeasure over consistent and unauthorised excess expenditure by the Ministry of Railways. PAC also recommended to the Ministry of Railways to review and overhaul their existing mechanism for estimation of budgetary requirements. However, MoR has taken initiatives on repeated recommendations of the PAC. The excess expenditure has been decreased to the greater extent as compared to the excess expenditure incurred in last three years by the Ministry of Railways.

The cases of misclassification of expenditure have been a regular feature in the accounts of IR. The PAC observed that a large number of cases of misclassification of expenditure under various Grants/Appropriations operated by Ministry of Railways have turned out to be a recurring phenomenon. The Committee recommended that the existing budgetary mechanism in Railways needs to be revamped to overcome systemic lacunae/loopholes and progressive elimination of misclassification syndrome and responsibility fixed on the persons responsible for the apparent lapses.

MoR needs to make concerted efforts to curb/eliminate the instances of misclassification of expenditure by the spending units.

Ministry of Railways has re-appropriated ₹ 4,000 Cr from Railway funds (Capital Fund) on Final Grant (FG) stage and allocated to the Capital (2200- Lease Assets-Capital component) by same amount. MoR has exercised the power of re-appropriation in compliance to its own circular of 25.7.2017 which may not be applicable for the Accounting year 2016-17. MoR should have taken prior approval from the Parliament for re-appropriation of fund from one source to another source of fund under Grant No. 16.

## 2.8 Recommendations

- *Allocation should be realistic and on conservative side keeping in view the realistic assessment of revenue streams.*
- *Ministry of Railways should impress upon the budget controlling authorities for regular monitoring of expenditure.*
- *Internal control mechanism should be strengthened to reduce the instances of misclassification of expenditure.*
- *The unsanctioned expenditure should be controlled; administration should ensure all unsanctioned expenditure is regularised on priority.*