PREFACE

This Report has been prepared for submission to the President of India under Article 151 of Constitution of India.

Based on the audited accounts for the year ended 31 March 2012, this report provides an analytical review of the Accounts and Finances of the Indian Railways (IR). The report is structured in three chapters.

Chapter 1 covers the audit findings on the finances of IR and makes an assessment of the fiscal status of IR as on 31 March 2012. Various indicators on earnings, expenditure, reserves, operational efficiency etc are analyzed.

Chapter 2 covers the audit findings on the Appropriation Accounts of IR and analysis of management of allocated resources. This chapter also analyzed the reasons for savings/excesses against the authorization given by Parliament.

Chapter 3 is on the process of preparation of Budget at Railway Board, Zonal Headquarters and field levels along with rules and regulations governing the formulation of budget and Financial Management including the existing system of internal controls in IR. It also includes audit findings on inadequate financial management which resulted in shortfall in generation of internal resources, extra budgetary resources etc.

EXECUTIVE SUMMARY

Background

IR is a departmental commercial undertaking of the Government of India. It consists of 64,600 route kms* on which more than 19,710 trains ply, carrying about 23 million passengers and hauling nearly 2.67 million tonne of freight everyday. Policy formulation and overall control of the Railways is vested in Railway Board comprising of the Chairman, Financial Commissioner and other functional Members. The IR system is managed through 17 zones having 68 operating divisions. Apart from the zonal railways representing the operational part of the system, there are six production units engaged in manufacturing of rolling stock and other related items.

From 1 April 1950, a separate Railway Budget is being presented to the Parliament prior to presentation of the General Budget every year. Though the Railway Budget is presented to Parliament separately, the figures relating to the receipts and expenditure of IR are also shown in the General Budget, as Railway Budget forms part of the total budget of the Government of India.

Summary of Conclusions

Report of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2011 (Report No. 3 of 2012-13) highlighted that during 2010-11, the gross traffic receipts increased by 8.71 *per cent* over the previous year. However, total revenue receipts, increased by 8.35 *per cent* which was below the Compound Annual Growth Rate (CAGR) of 10.53 *per cent* during the period 2006-10. The growth of freight earnings and passenger earnings were 7.42 *per cent* and 9.81 *per cent* respectively, which were below the CAGR achieved during 2006-10. Net surplus after meeting dividend liability was ₹ 1,404.89 crore in 2010-11. The Operating Ratio was almost static as compared to the previous year.

During 2011-12, the gross traffic receipts increased by 10.13 *per cent* over the previous year. However, total revenue receipts, increased by 9.89 *per cent* which was slightly above CAGR of 9.68 *per cent* during the period 2007-11. The growth rate of freight earnings and passenger earnings was 10.67 *per cent* and 9.51 *per cent* respectively over the previous year. These were above the

* Route-***kilometre-The distance between two points on the railway irrespective of the number of lines connecting them viz., single line, double line, etc.***

CAGR achieved during 2007-11. The Operating Ratio deteriorated as compared to the previous year.

Net surplus after meeting dividend liability stood at ₹ 1,125.57 crore in 2011-12. It was less than the budget estimates by 78.59 *per cent* despite a reduction in the appropriation to Depreciation Reserve Fund by seven *per cent* and a growth of revenue expenditure at 10.33 *per cent* which was well below the CAGR of 16.77 *per cent* recorded during the period 2007-11.

Depreciation Reserve Fund and Pension Fund closed with negligible balances of ₹ 5.05 crore and ₹ 6.52 crore respectively in 2011-12. Development Fund closed with negligible balance of ₹ 4.73 crore in 2011-12 this was after obtaining a loan of ₹ 3,000 crore from Ministry of Finance under this fund during the current year. Capital Fund closed with a negative balance of ₹ 401.53 crore in 2011-12. Balances in the reserve funds stood at ₹ 1,770.91 crore at close of the year 2011-12. Though the fund balances improved by ₹ 1,428.40 crore over the previous year balance of ₹ 342.51 crore, the financial performance of IR remained poor in the current year. The meager/negative balances in reserve funds will adversely impact the safety aspects and future expansion of IR's existing services.

IR was unable to meet its operational cost of passenger and other coaching services. During 2010-11, there was a loss on passenger and other coaching services of ₹ 20,948.35 crore. The freight services earned a profit of ₹ 20,563.59 crore which indicated that IR is actually incurring a loss on its core activities. The above issues have been regularly highlighted in the preceding Reports of Comptroller and Auditor General of India-Union Government (Railways).

IR incurred ₹ 1,048.14 crore more than the authorization given by Parliament in two revenue grants and two appropriations, despite obtaining supplementary provisions in all these grants and appropriations. In seven revenue grants and one capital grant (three segments), there were savings of more than ₹ 100 crore. In one revenue grant, the savings was more than the supplementary grant obtained.

Existing internal control in IR was not adequate in ensuring compliance to the rules and regulation for effective budgeting. Measures suggested by the Ministry of Finance were not addressed or provided due consideration while formulating budget. Non-observance of extant provisions led to adopting defective budgeting procedures which manifested in the form of incorrect assessment of funds.

The basis adopted by the IR for projecting growth and variation in earnings as well as expenditure were not adequately assessed and documented.

Moderation of estimates both at the zonal level and the Railway Board level were resorted to without recording logical reasons thereof.

IR was not able to generate adequate internal resources due to higher rate of increase in ordinary working expenses over gross traffic receipt. Due to shortfall (28 *per cent*) in internal resources and Extra Budgetary Resource component, the Plan Expenditure during the year 2011-12 was reduced by ₹ 11,163 crore (19 *per cent*). Arbitrary investment decision without adhering to the laid down criteria resulted in excess expenditure or savings in allotted fund.

Major Recommendations

Recommendations on various aspects of Railway finances are given in the relevant chapters of this report; some of the major recommendations are summarized below:

- IR is facing severe financial crunch and their accumulated funds have eroded considerably from ₹ 21,681.60 crore in 2007-08 to ₹ 1,770.91 crore in 2011-12. The way forward for IR is to improve its finances and rationalize both freight as well as passenger tariffs. IR may explore new avenues to recover the cost from its services in order to generate sufficient surplus to meet its future requirements.
- IR needs to review all cases of licensing/renting of its assets for timely revision/raising of bills and realization of dues including arrears.
- IR needs to pursue effectively the cases of unrealized earnings pending under traffic suspense mainly on account of movement of traffic and demand recoverable.
- IR should fortify its internal controls to effectively reduce the instances of misclassification of expenditure. Deterrent sanctions should be put in place to foster greater responsibilities at the level of key controlling officers.
- MoR to institutionalize effective system of documentation of the process of preparing estimates and the system of verifying the authenticity of data used in projecting estimates.
- MoR needs to devise suitable strategies for generating adequate internal resources and strengthen financial management for optimal use of available resources.