109

ACCOUNTING OF PROJECTS IN INDIAN RAILWAYS

MINISTRY OF RAILWAYS (RAILWAY BOARD)

PUBLIC ACCOUNTS COMMITTEE
(2018-19)

ONE HUNDRED AND NINTH REPORT

SIXTEENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

PAC NO. 2143

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ACCOUNTING OF PROJECTS IN INDIAN RAILWAYS

MINISTRY OF RAILWAYS (RAILWAY BOARD)

सत्यमेव जयते

Presented to Lok Sabha on: ……………….

Laid in Rajya Sabha on: ……………….

LOK SABHA SECRETARIAT
NEW DELHI

August 2018/ Shravana 1940 (Saka)

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* Not appended

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2018-19)

Shri Mallikarjun Kharge - Chairperson

MEMBERS

LOK SABHA

2. Shri Subhash Chandra Baheria
3. Shri Sudip Bandyopadhyay
4. Shri Prem Singh Chandumajra
5. Shri Gajanan Chandrakant Kirtikar
6. Shri Bhartruhari Mahtab
7. Smt. Riti Pathak
8. Shri Ramesh Pokhriyal "Nishank"
9. Shri Janardan Singh Sigriwal
10. Shri Abhishek Singh
11. Shri Gopal Shetty
12. Dr. Kirit Somaiya
13. Shri Anurag Singh Thakur
14. Shri Shivkumar Chanabasappa Udasi
15. Dr. Ponnusamy Venugopal

RAJYA SABHA

16. Prof. M. V. Rajeev Gowda
17. Shri Bhubaneswar Kalita
18. Shri Shwait Malik
19. Shri Narayan Lal Panchariya
20. Shri Sukhendu Sekhar Roy
21. Vacant
22. Vacant

SECRETARIAT

1. Shri A.K. Singh - Additional Secretary
2. Shri T. Jayakumar - Director
3. Smt Anju Kukreja - Under Secretary

COMPOSITION OF THE SUB COMMITTEE-II (RAILWAYS) OF THE PUBLIC ACCOUNTS COMMITTEE (2017-18)

Convenor	:	1.	Dr. Kirit Somaiya
Alternate Convenor	:	2.	Shri Naresh Agrawal[i]
Members	:	3.	Shri Bhubaneswar Kalita
		4.	Shri Subhash Chandra Baheria
		5.	Shri Anurag Singh Thakur
		6.	Prof. Ram Shanker

[1] Ceased to be a Member of Committee consequent upon his retirement from Rajya Sabha on 2 April, 2018.

INTRODUCTION

I, the Chairman, Public Accounts Committee (2018-19) having been authorised by the Committee, do present this One Hundred and Ninth Report (Sixteenth Lok Sabha) on '**Accounting of Projects in Indian Railways'** based on Chapter 3 of C&AG Report No.19 of 2014 related to the Ministry of Railways (Railway Board).

2. The above-mentioned Report of the Comptroller and Auditor General of India was laid on the Table of the House on 28th November, 2014.

3. The Sub-Committee - II (Railways) of the Public Accounts Committee (2017-18) took up the subject for detailed examination and report. The Sub-Committee took evidence of the representatives of the Ministry of Railways (Railway Board) on the subject at their sitting held on 12th October, 2017. Accordingly, a Draft Report was prepared and placed before the Public Accounts Committee (2017-18) for their consideration. The Committee considered and adopted this Draft Report at their sitting held on 7th August, 2018. The Minutes of the Sittings are appended to the Report.

4. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type and form Part- II of the Report.

5. The Committee thank their predecessor Sub-Committee for taking oral evidence and obtaining information on the subject.

6. The Committee would like to express their thanks to the representatives of the Ministry of Railways (Railway Board) for tendering evidence before them and furnishing the requisite information to the Sub-Committee in connection with the examination of the subject.

7. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI; **MALLIKARJUN KHARGE**

7 August, 2018 **Chairperson,**

16 Shravana, 1940 (*Saka*) **Public Accounts Committee**

REPORT

I. INTRODUCTORY

1. This Report is based on Chapter 3 of C&AG Report No.19 of 2014 on the subject "Accounting of Projects in Indian Railways" wherein Audit had observed that Indian Railways is in general not following its own rules and regulations laid down in the Financial Code and Engineering Code for efficient execution of projects and for proper accounting of financial transactions. In the absence of proper records it is not possible to ascertain expenditure incurred in executing a project; it indicates a lack of financial discipline and increases risk of losses-both material and financial, in implementation of projects. This assumes significant importance in view of the large number of projects under implementation in the railways. Completion reports were not prepared for 674 projects completed/commissioned prior to March 2011. This includes 92 projects commissioned from 2008-09 to 2010-11 and 466 projects commissioned more than three years ago, of which 78 projects were commissioned twenty years ago. The date of completion of 116 projects was not on record. Cases of expenditure in excess to sanctioned estimate etc remained un-regularized for decades and has led to the situation of no control/check over expenditure on capital works. The Ministry of Railways incurred expenditure more than its agreed percentage of cost due to non-following the terms and conditions of the agreements executed with the State Governments relating to cost-sharing projects. The PAC (2017-18) selected the subject and allotted the same to Sub-Committee-II (Railways) for detailed examination and report. In the process of examination of the subject, the Sub-Committee obtained background note from the Ministry of Railways (Railway Board). They also took oral evidence of the representatives of the Ministry and obtained post evidence replies. Based on the written and oral depositions by the Ministry, the Sub-Committee examined the subject in detail and discussed some important issues as enumerated in the succeeding paragraphs.

II. WORKS REGISTERS

2. Engineering Code (Para 1472) and Para 521 of Financial Code-Volume I stipulate the procedure of maintenance of works registers to facilitate the control of expenditure with reference to sanctioned estimates, budget allotment and details of expenditure on each work. Para 1478 of Engineering Code stipulates the procedure to be adopted to facilitate control over works expenditure against estimate as well as allotment. The

Accounts Officer should furnish periodically the estimated cost allotment, expenditure and up-to-date expenditure on each work during the year to the Executive Engineer. The cost of ongoing and completed projects included in the books of Accounts is to be validated by reconciling the expenditure booked in the Works Register. To ensure correctness of figures exhibited in the books of Accounts, prompt reconciliation of expenditure booked under projects is necessary. Review of records revealed that the total expenditure of ` 51,667.83 crore was booked (up to March 2013) in 305 Works Register in respect of 144 projects (excluding 10 projects each in NR and ECoR) maintained by accounts office whereas the expenditure mentioned in the books of Executives was only `35,960.86 crore. The variation in expenditure of `15,706.97 crore was not reconciled.

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

4. The Committee desired to know about the reasons for difference in booking of expenditure in the Works Registers maintained by the Accounts and Executives. The Ministry in their reply furnished as under:

> "As per codal provision (Para 1472 of Engineering Code) a single set of Works Registers is to be maintained by Accounts Office. The works register captures information on expenditure actually charged to the estimate. Parallel sets of Register are separately maintained by the Executive, which capture information at various stages - at the time of preferring of bill, quantum of work, material at site etc. The differences are transient and on account of time lag in posting of adjustments in the works register."

5. The Ministry further stated that actual expenditure on the Projects is ascertained primarily from Works Register maintained in Accounts Office. These figures are arrived at after considering cash expenditure as well as adjustment on account of receipt of material etc. from other Railways/ expenditure on labour etc. The amount booked in the Works Register is the actual expenditure vis-à-vis the Project.

6. In response to a query of the Committee about the steps taken by the Railways to ensure that the expenditure is correctly booked in the works registers and there is no difference in the figures of expenditure as per Accounts and Executives of each work, the Ministry stated as under:

> "After finalization of Accounts for the month, the detailed work-wise expenditure statement is prepared and sent to the Executive offices to facilitate reconciliation of expenditure booked under projects in terms of para 1478E and 524 F I. Information on expenditure is now captured from an IT platform (Software IPAS) and works registers are accordingly being maintained on an IT platform. The cash book amounts and adjustment amount are posted in Works Register while finalizing Accounts Current. Reconciliation in accounts is therefore automatic and ensured by the system. A copy of Works Register is now being provided to the Engineering Counterpart for the purpose of updating the Engineering Departments Register."

III. COMPLETION REPORTS

7. Engineering Code (Para 1704) stipulates that after all charges and credits relating to the project have been booked in the accounts of the project, a completion report of the project should be prepared. It further states that the completion report should be checked in the Accounts Office to see that the entries have been prepared on the proper form and entries therein correspond with the particulars of the sanction and booked outlay. Para 1705 of Engineering Code stipulates that the Completion Report is to be prepared to compare the cost of the work actually incurred with that provided in the last sanctioned estimate. Audit examined the records maintained by accounts/executives relating to monitoring the preparation of completion reports and observed that the completion reports were not prepared for 674 projects completed/commissioned prior to March 2011. This includes 92 projects commissioned during 2008-09 to 2010-11 and 466 projects commissioned more than three years ago, of which 78 projects were commissioned twenty years ago. However, the details regarding even the date of completion of remaining 116 projects were not on record.

8. The Committee enquired as to why the Completion Reports, which are required to be prepared to compare the cost of the work actually incurred and provided in the last sanctioned estimate, had not been prepared by the Railways and in the absence of Completion Reports how the Railways ascertain the final expenditure incurred on a project and compare with that provided in the last sanctioned estimate. The Ministry during evidence accepted that IR is lagging behind in this area. In a written submission the Ministry stated as under:

> "Preparation of Completion Reports after completion of the work is a regular process. Sometimes there may be delays due to arbitration/court proceedings etc. as a result of which payment of final bills may be held up, non-receipt of share

> from State Govts/Parties which provide the deposits for works to be undertaken. Consequent to this Audit Report, the System of preparation and finalization of Completion report has been reviewed. Instructions have been reiterated to all Railways to strictly follow the codal provisions. This has led to considerable improvement in the system with 6651 completion reports drawn in 2014-15 to 2016-17. There has been a definite improvement in the way. Completion Reports are now being maintained."

9. In view of the large delay in preparing the Completion Reports, the Committee desired to know about the existing system of monitoring the preparation of Completion Reports and what steps IR has taken to ensure that the Completion Reports are prepared timely. They also asked about the action plan of the Railways to prepare the Completion Reports of 78 projects commissioned twenty years ago. The Ministry in a written submission stated as under:

> "Delay is due to non finalization of final bills. Final bills may not be preferred by contractors due to reasons of dispute, arbitration, court cases, delay in finalization of compensation for land acquisition, pending financial adjustments, shortage of funds to clear final bills etc. Final bills may also not be drawn up in cases where residual share from the parties to the deposit works is yet to be received. A monitoring mechanism has also been put in place by Zonal Railways to maintain and report the progress on this matter. Accordingly there has been significant improvement in the position of preparation of Completion reports for example: SWR have confirmed that all the CRs have been drawn up. On WR, SR targets have been fixed to reduce the outstanding by 50% by 31.12.2017."

IV <u>PROJECT APPRAISAL</u>

10. Financial Code-Volume-I (Para 243) stipulates that a post project appraisal is necessary to find out if the financial return anticipated from a project at the estimate stage was actually realized in due course. This is accomplished by conducting a Productivity Test for all major works. Audit examined the position relating to post project appraisal and found that in none of the 93 major projects completed (New Lines, Doubling & Gauge Conversion) during 2007-08 to 2011-12, the Productivity Test was carried out by Zonal Railways. Thus, the mandatory test to assess the actual financial returns of the projects vis-à-vis the estimated return was not carried out in all the 93 projects reviewed in audit across the Zonal Railways.

11. The Committee enquired that in the absence of post project appraisal, how the Railways ascertain that the financial return anticipated from a project at the estimate stage was actually realized in due course. The Ministry stated that as per extant

instructions, post project appraisal is due in all major works. It has to be undertaken in projects 7 years after the completion.

12. When the Committee asked about the reasons for non-conducting post project appraisal by the Railways in 93 major projects of New Lines, Gauge Conversion and Doubling completed during 2007-08 to 2011-12, the Ministry in their reply furnished as under:

> "Productivity test was delayed in some cases due to non finalization of Completion reports and non availability of information with respect to parameters of assumption made at the time of estimation.
>
> After audit has taken up this issue the system was reviewed and as can be seen from the table attached *(Annexure-A),* the number of Productivity tests done has actually improved from 6 in 2014-15 to 35 in 2016-17. A total of 53 Productivity tests have been finalized in the years 2014-15 to 2016-17. For example, Southern Railway has subsequently conducted productivity tests for 3 projects viz TPJ-MNM GC, IGU-CBE Doubling, CGL-AJJ Gauge conversion etc. SWR had conducted PPA for MYS-CMNR, YPR-TK and Kengeri-Ramanagaram (DL), WR has conducted Productivity test for Gandhidham-Adipur DL, Gandhidham-Kandla port, Akodia-Mohammedkhera-Shulja and Pratapnagar-Chottapuddepur."

13. In his deposition before the Committee on this issue the representative of the Ministry admitted that:

> "Drawing up of Completion Reports and productivity tests are post-project exercises. Here the position is that we are lagging in this but in 2015 we had issued instructions to each of the Zonal Railways to pick up three major projects for the purpose of productivity test. That work is on. So far, we have got reports of about ten such projects for productivity tests."

14. He further submitted that:

> "We were slightly in arrear in the productivity tests and completion report works. We have taken up this in right earnest."

V <u>ASSET REGISTER</u>

15. As per Para 1720 of Engineering Code, an Asset Register is to be maintained wherein the investment cost of projects should be docketed and the register handed over to the Open Line (Divisions) after completion of the project, as a part of handing over records for retention as permanent record. Block Accounts exhibit value of Assets created by Railways from various sources of finance such as Capital, Depreciation Reserve Fund, and Development Fund etc. Ministry of Railways (November 2000) in the Action Taken Note contained in the 9th Report of the Standing Committee on Railways

(1997-98) on Railway Finances informed the Standing Committee on Railways that standardized format for the Asset Register had been developed and circulated to all Zonal Railways and Production Units. Audit examined the position prevailing in Construction Organizations and found that out of 525 works test checked, Asset Register was not maintained in respect of 500 works and cost of the commissioned projects was not transferred to Divisions.

16. The Committee enquired about the reasons for not preparing the Assets Registers of the projects and handed over to the Open Lines (Divisions) after completion of projects. The Committee were informed by the Ministry as under:

> "Assets Register are prepared by Accounts Office on finalization of Completion Report. In cases where Completion Reports were not finalized, the Asset Register was not updated. NWR has indicated that in 10 projects, Asset Register was not prepared on account of court/arbitration cases.
>
> In case of Guria-Marwar, Ajmer-Bangaragram, Bangagram-Guria, Marwar-Rani and Kesavganj-Swaroopganj, the Asset Register was not prepared as the projects are yet to be completed. Other Railways viz SR,SWR, have confirmed that Asset Registers are now being maintained. Similarly other Railways have also now started maintaining Asset Registers."

17. In this regard, during evidence, Chairman Railway Board stated that:

> "we will give you a target date by when our Asset Register will be completed."

18. On being enquired about the status of development of standardized format of the Asset Register and its software for compiling the Asset Register the Ministry informed that Standardized Format of Asset Register on Pan-India basis for Accounting Reforms in line with relevant requirement of commercial accounting standard has been finalized and Zonal Railways are now maintaining the same as per the new format.

VI MATERIAL RECONCILIATION STATEMENT

19. Railway Board stipulated (September 2009) that reconciliation of material issued to and utilized by the contractor should be done while passing each on-account bill without waiting for preparation of final material reconciliation statement. Passing of on-account bills without material reconciliation statement would lead to instances where excess materials issued to the contractors would remain unrecovered from them leading to undue benefit, without being recovered. Audit reviewed 5,737 on-account bills in respect of 164 selected projects and observed that 619 bills were passed after

preparation of material reconciliation statement. Remaining 5,118 on-account bills were passed without preparation of material reconciliation statement.

20. Since, the Railway Board's instructions in this regard have not been followed by the Zonal Railways, the Committee desired to know the reasons thereof. In response thereto the Ministry replied as under:

> "The supply of materials and utilization thereof is being monitored by executive at regular intervals and no bill is made without the issue/receipt statement of material. On completion of the work, the final material statement is made and accordingly recoveries effected, if necessary, in the final bill. This procedure is being followed at all the stages from preparation of bill to passing of the bill.
>
> Material reconciliation statement is required to be submitted with an account bill, and instructions have been reiterated for the procedure to be followed."

VII RELEASED MATERIALS

21. The expenditure voted by the Parliament is on gross basis but the compilation of expenditure by Plan Heads is on net basis taking into account the credit or recoveries generated by the realization of credit for released materials. Hence, a watch on actual realization of credit as provided in the estimate is necessary. Proper assessment and account of released material is important not only from the point of view of booking of the expenditure but also from the point of view of physical recovery of all the materials.

22. Review of 53 gauge conversion projects revealed that as against the estimated credit towards released materials of `1,870.15 crore, the actual realization was `1,240.57 crore resulting in short realization of `629.58 crore. Work-wise details of estimation and actual realization of Credit for Released Rail Materials were not available in NER and ECR and hence the correctness of realization (whether on gauge conversion projects or track renewal works) and accountal of Credit for Released Rail Materials could not be verified. As against the estimated value of `1,150.47 crore, the actual realization was only `473.37 crore resulting in short realization of `677.10 crore (58.85 *per cent*) in 26 projects. In 16 other projects as against the estimated value of `274.95 crore, the actual

realization was ` 590.89 crore. In SECR and ER, no credit was earned though the credit for Released Rail Materials in respect of four projects was estimated at ` 70.32 crore.

23. The Committee enquired about the records of credits for released materials by the Zonal Railways and not kept as per the codal provisions and reasons for so much differences in estimated and actual realization of credits for released materials. In response, the Ministry stated that codal provisions exist for accountal of the Released materials. Their actual realization depends on the actual release of materials and the price realized. The variation occurred between estimation and actual realization depending upon the quality of the material released its subsequent sale by way of auction and market fluctuation. In light of the Audit objections, Railways have been strictly instructed to follow the codal provisions.

VIII WORKS ON COST SHARING BASIS

24. Any plan expenditure incurred by Railways on behalf of other parties as well as such investment/expenditure incurred by other parties as is not funded by Railways either through Gross Budgetary Support/Internal Resources/Safety Fund should rightfully be accounted for under Extra Budgetary Resources (EBR). Such items/activities inter alia, include: (i) Deposit works of private/Public entities executed by Railways (ii) Cost sharing projects of new lines/gauge conversion/doubling etc. (iii) Public Private Partnership (PPP) projects (iv) State Government's share in Road Over Bridges (ROBs)/Road Under Bridges (RUBs). Railway Board advised (May 2013) the Zonal Railways that all investments in rail infrastructure through EBR funded through other sources need to be captured/reported to Railway Board on monthly basis along with the monthly Account Current. Zonal Railways were also advised to furnish the information relating to 2012-13 along with March actuals.

25. Audit observed that in 13 projects executed on cost sharing basis with the State Governments, the Railways incurred `394 crore more than its agreed percentage share of cost incurred. A comment on excess expenditure amounting to ` 270.38 crore by Ministry of Railways due to short receipt of funds from Government of Maharashtra for

Mumbai Urban Transport Project (MUTP) being executed by Mumbai Rail Vikas Corporation Limited (MRVC) has been commented upon in the Annual Accounts of the MRVC Limited for the year 2012-13. This could lead to financial burden on the Ministry of Railways which is already facing resource crunch.

26. In their reply to aforesaid Audit observation the Ministry submitted that:

> "Zonal Railway (SCR) Administration stated that the State Government is being requested to release the funds based on the progress of the projects. Accordingly, Railway Board is also being requested to allot fund in August Review and Revised Estimates. However, the final allotment of additional funds by Railway Board is known only at the time of allotment of final grant. Hence there is difference in allotment of funds by the State Government and Railway Board. However, the differences, if any, are adjusted in subsequent years."

27. The Committee enquired about the reasons for not following the terms and conditions of the agreements relating to the cost sharing projects strictly to ensure the proportionate and timely funding by State Governments. In their replies the Ministry submitted as under:

> "The cost sharing projects require that parties deposit their portion of costs with the Railways. This amount is deposited before the start of work. The proportion of the cost sharing between the Railways and outside parties is laid down in the contract agreement.
>
> In certain cases cost overrun may happen in view of increased costs of labour, material as these projects may get delayed and take time to be fully executed.
>
> However, the realization of increased cost is a time taking exercise and while the work itself cannot be stopped merely for want of funds from the deposit making party, the work continues and Railways bears the cost, subject to final receipt of the increased share from the State Government. However, all out efforts are being made to realize the dues from the State Government."

IX <u>CONTROL OVER EXPENDITURE</u>

28. As per Para 519 of Financial Code-Volume-I, control over expenditure on works executed under Grant No.16 is exercised through (a) preparation, in advance, of estimates of the expenditure to be incurred (b) allotment of funds through budget grants for the year, on the basis of these estimates and (c) continuous and concurrent review of the expenditure as incurred against the details of the estimates and against the sanctioned grants, so that revisions of estimates or re-appropriation of fund are arranged for at the earliest point of time. Para 524 of Financial Code-Volume-I provides that the

Accounts Officer should prepare every month two reviews, one by Plan heads of the Grants and the other by individual works. Test check of 525 works relating to monthly review of expenditure revealed that while the Plan-head wise monthly review by Accounts Office was conducted in respect of 367 works; the same was not conducted for the remaining 158 works; and Work-wise monthly review by Accounts Office was not conducted in respect of 210 works. Monthly review was, however, conducted for the balance 315 works.

29. A comparison of figures of allotment and utilization of funds during 2012-13 made in respect of 916 projects revealed that though the allotted funds were fully utilized in 207 projects, expenditure in excess of Budget grant was incurred to the tune of ` 572.24 crore in 310 projects. However, the funds to the tune of ` 902.32 crore were surrendered in respect of 399 projects.

30. The Committee desired to know as to why the monthly reviews as contemplated in the Financial Code had not been conducted by the Railways and as to how the Railways exercise control over expenditure in the absence of conducting periodical review of works. The Ministry in their reply furnished as under:

> "Monthly Review, as contemplated in the Financial Code, are undertaken at the level of source of funds/plan heads rather than at the level of Works by Finance Department. No expenditure in excess of budget is ordinarily allowed over the budgeted outlay for the year. Wherever expenditure is likely to exceed/remain short re-appropriations from/to such works are made or parliamentary sanction obtained."

X EXCESS OVER SANCTIONED ESTIMATE

31. As per Para 1136 of Engineering Code, expenditure or liability on a work in excess of the sanctioned estimate without the prior sanction of the competent authority should not be incurred. Railway Board reiterated (February 2000) that estimates should be prepared carefully and in case there is likely to be an increase in the sanctioned estimate, the revised estimate should be prepared well in time and no expenditure beyond 10 *per cent* over the sanctioned estimate should be incurred till the revised estimates are sanctioned. Audit observed that in respect of 60 works projects, expenditure of ` 44.35 crore was incurred without sanction of estimate and ` 4,957.52

crore was incurred in excess of sanctioned estimate in respect of 555 projects/works. Thus the expenditure of ` 5,001.87 crore incurred on 615 projects ranging from one year to more than twenty years remained unsanctioned as of March 2013.

32. The Committee asked the Ministry about the reasons for expenditure remained unsanctioned for so long i.e. more than a decade and the expenditure on the projects is being incurred without sanctioned estimate. They also enquired about the action plan of the Railways to get regularized the unsanctioned expenditure and also strengthening the internal control mechanism to avoid booking of expenditure on the project without sanction by the competent authority i.e. the DRM/GM. The Ministry in a written submission stated as under:

> "Normally the works are executed only after sanction and revisions are also made concurrently as and when required through material modifications, revised estimates etc. However, completion estimates take time for accounting of all residual liabilities and assets. Instructions exist for these items to be reviewed and regularize the same with the sanction of competent authorities. Railways have been instructed to make action plan to fix a target for regularization of all pending items of unsanctioned expenditure and review the position periodically so that pendency in this head is eliminated."

PART II

OBSERVATIONS AND RECOMMENDATIONS

1. This report is based on Chapter 3 of C&AG Report No. 19 of 2014 on the subject "Accounting of Projects in Indian Railways". Indian Railways undertakes various projects from time to time for augmentation of network capacity including renewal and replacement of depleted assets while incurring expenditure on such works/projects, it is essential that the utilization of the resources have to be properly accounted for and periodically monitored. The Committee note from the Audit Report that Indian Railways is, in general not following its own rules and regulations laid down in the Financial Code and Engineering Code for efficient execution of projects and for proper accounting of financial transactions. The Committee also note that completion reports were not prepared for 674 projects completed/commissioned prior to March 2011. This includes 92 projects commissioned during 2008-09 to 2010-11 and 466 projects commissioned more than three years ago, of which 78 projects were commissioned twenty years ago. The date of completion of 116 projects was not on record. Cases of expenditure in excess to sanctioned estimate etc remained un-regularized for decades and has led to the situation of no control/check over expenditure on capital works. The Ministry of Railways incurred expenditure more than its agreed percentage of cost due to non-following the terms and conditions of the agreements executed with the State Governments relating to cost-sharing projects.

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

correctness of figures exhibited in the books of Accounts, prompt reconciliation of expenditure booked under projects is necessary. Review of records revealed that the total expenditure of ` 51,667.83 crore was booked (up to March 2013) in 305 Works Registers in respect of 144 projects (excluding 10 projects each in NR and ECoR) maintained by accounts office whereas the expenditure mentioned in the books of Executives was only `35,960.86 crore. The variation in expenditure of `15,706.97 crore was not reconciled. The Committee are appalled to note the reply of Zonal Railway Administration (SECR, SR, NCR, SCR, NER, NEFR and MR) that the arrears in reconciliation were due to staff shortage, shortage of time etc. It has also been stated by the Ministry of Railways that the differences are transient and on account of time lag in posting of adjustments in the Works Register. The Committee are not convinced by the reasons given by the Ministry of Railways. The Committee would like to know that how the Ministry of Railways is trying to augment the accounting staff for proper maintenance of all the Works Registers as per the Engineering codes. Since expenditure booked in Works Registers was not reconciled, it was not possible to ascertain the actual expenditure incurred on a project. The Committee, therefore, feel that there is an urgent need to take appropriate steps for prompt reconciliation of expenditure booked under various projects so as to ensure financial propriety. As regards the steps taken to ensure that the expenditure is correctly booked in the Works Registers, the Ministry informed that information on expenditure is now captured from an IT platform (software IPAS) and Works Registers are accordingly being maintained on an IT platform. Reconciliation in accounts is, therefore, automatic and ensured by the system. While appreciating the aforesaid measures, the Committee hope that in future such irregularities in reconciliation would not recur. They would also like to be apprised of the present status of reconciliation of variation in expenditure to the tune of ` 15,706.97 and similar instances/cases identified in all other projects of Ministry of Railways for the last three years.

Completion Reports

3. Engineering Code (Para 1704) stipulates that after all charges and credits relating to the project have been booked in the accounts of the project, a completion report of the project should be prepared. It further states that the completion report should be checked in the Accounts Office to see that the entries have been prepared on the proper form and entries therein correspond with the particulars of the sanction and booked outlay. Para 1705 of Engineering Code stipulates that the Completion Report is to be prepared to compare the cost of the work actually incurred with that provided in the last sanctioned estimate. The Committee observe that the completion reports were not prepared for 674 projects completed/commissioned prior to March 2011. This includes 92 projects commissioned during 2008-09 to 2010-11 and 466 projects commissioned more than three years ago, of which 78 projects were commissioned twenty years ago. However, the details regarding even the date of completion of remaining 116 projects were not on record. Attributing the reasons for non-preparation of completion reports, the Ministry of Railways stated that sometimes there may be delays due to arbitration, court cases, delay in finalization of compensation for land acquisitions pending financial adjustments, shortage of funds to clear final bills etc. The Committee have further been informed that consequent to Audit Reports, the system of preparation and finalisation of completion Report has been reviewed. Instructions have been reitereated to all Railways to strictly follow the codal provisions, which has led to improvement in the system with 6651 Completion Reports drawn during 2014-15 and 2016-17. Further, action plan has been drawn to prepare the Completion Reports of 78 projects commissioned twenty years ago. The Committee have also been apprised that a monitoring mechanism has also been put in place by Zonal Railways to maintain and report the progress in the matter. Accordingly, there has been significant improvement in preparation of Completion Reports (CRs) as in SWR all the CRs have been drawn up. On WR and SR targets have been fixed to reduce the outstanding by 50% till 31-12-2017.

The Committee are shocked to observe that there is no explanation by the Ministry as to why Completion Reports of 78 projects commissioned twenty four years ago were not prepared. The Committee have serious doubt that as the books of accounts were opened for such a long period, there is a possibility of adding on

expenditure even after completion of actual work. The Committee note that Para 1705 of the Engineering Code stipulates that Completion Report has to be prepared inorder to compare the cost of work actually incurred with that provided in the sanctioned estimate. If the test checked cases in the Audit Report reveals non-preparation of Completion Reports of 78 projects commissioned even 24 years ago the Committee can very well visualize that what would be the quantum of non-completion of Reports at present in the entire Railway Zones. The Committee, therefore, recommend that after taking stock of the total non Completion Reports, Chief Accounting Authority in the Railway Board as well as the concerned accounting authorities in all the Railway Zones should be held responsible for this lapse and suitable punishment awarded to them. Besides, a robust internal control system to assess and verify the cost of completed projects in the books of Accounts should be evolved by the Ministry. The Committee would also like to be apprised of the present position of 50% outstanding reports which were to be completed by 31-12-2017.

<u>Project Appraisal</u>

4. Financial Code-Volume-I (Para 243) stipulates that a post project appraisal is necessary to find out if the financial return anticipated from a project at the estimate stage was actually realized in due course. This is accomplished by conducting a Productivity Test for all major works. Audit examined the position relating to post project appraisal and found that in none of the 93 major projects completed (New Lines, Doubling & Gauge Conversion) during 2007-08 to 2011-12, the Productivity Test was carried out by Zonal Railways. Thus, the mandatory test to assess the actual financial returns of the projects vis-à-vis the estimated return was not carried out in all the 93 projects reviewed in audit across the Zonal Railways. The Committee find that after the Audit pointed out this lacuna, the number of productivity tests done has actually improved from 6 in 2014-15 to 35 in 2016-17 in the years 2014-15 to 2016-17. The Committee further note that productivity test was delayed in some cases due to non-finalization of completion reports and non-availability of information with respect to parameters of assumption made at the time of estimation. The Committee are surprised to note that non-conducting the post project appraisal of major projects has not only

violated the codal provisions but also resulted in non-payment of deferred dividend liability on New Lines to Government of India as recommended by Railway Convention Committee. The Committee take note of the fact that only after being pointed out by Audit, the Ministry of Railways woke up and improved the number of productivity tests which is nothing but regrettable. In such a situation, the Committee cannot but come to the conclusion that non-observance of codal provisions had led to such a situation that productivity test was not carried out even in a single project out of the 93 major projects completed during 2007-08 to 2011-12. The Committee would like the Ministry of Railways to review these cases and apply necessary corrective measures to ward off such lapses again. The Committee would like to be apprised of outcome of the measures taken in this regard.

Asset Register

5. As per Para 1720 of Engineering Code, an Asset Register has to be maintained wherein the investment cost of projects should be docketed and the Register handed over to the Open Line (Divisions) after completion of the project, as a part of handing over records for retention as permanent record. The Committee find that out of 525 works test checked, Asset Register was not maintained in respect of 500 works and cost of the Commissioned projects was not transferred to Divisions. Attributing the reasons for this lapse, the Ministry of Railways stated that in cases where Completion Reports were not finalized, the Asset Register was not updated. In view of the above, the Committee note that whole the system in Ministry of Railways for accounting of projects is faulty and needs improvement in every aspect from execution of projects to proper accounting of financial transactions. In the absence of proper records it is not possible to ascertain expenditure incurred in execution and finalization of project. The Committee are again constrained to observe that out of 525 works test checked, Asset Register was not maintained in 500 works. The Committee understand that the figure could be large if the works in all over the country were examined. The Committee are surprised to note that none of these cases have been pointed out by the Internal Audit of the Ministry. This shows the pathetic condition of the internal audit system of the Indian Railways which needs a

thorough overhauling. Now the Committee have been informed that the standardized format of Asset Register on Pan-India basis for Accounting Reforms in line with relevant requirement of commercial accounting standard has been finalized and Zonal Railways are now maintaining the same as per the new format. Further, the Ministry apprised the Committee that Zonal Railways have now started maintaining Asset Registers. While appreciating this move, the Committee would like to know about the target date by when all the Asset Registers would be completed.

<u>Material Reconciliation Statement</u>

6. Railway Board stipulated (September 2009) that reconciliation of material issued to and utilized by the contractor should be done while passing each on-account bill without waiting for preparation of final material reconciliation statement. Passing of on-account bills without material reconciliation statement would lead to instances where excess materials issued to the contractors would remain unrecovered from them leading to undue benefit, without being recovered. Audit reviewed 5,737 on-account bills in respect of 164 selected projects and observed that 619 bills were passed after preparation of material reconciliation statement. Remaining 5,118 on-account bills were passed without preparation of material reconciliation statement. However, the Ministry of Railway have not provided the reasons thereof. The Committee are unable to understand as to why the Railway Board's instructions in this regard have not been followed by the Zonal Railways. The Committee have been informed that the Ministry have a sound mechanism for monitoring the supply of materials and utilization thereof and this procedure is being followed at all the stages from preparation of bill to passing of the bills and instructions have been reiterated for the procedure to be followed. The Committee are surprised to see that out of 5737 on-account bills, 5118 bills were passed without material reconciliation statement while the Ministry stated that they have a sound mechanism for monitoring the supply of materials and utilization thereof. The Committee feel that the procedure followed by the Ministry was not in line with the extant provisions of reconciliation of material while passing each on-account bill. The Committee therefore, desire that the Ministry of Railways should ensure that the extant procedure in this regard is further

monitored so as to make it more effective and instructions issued are followed by all the Zonal Railways in letter and spirit.

Released Material

7. The Committee find that review of 53 gauge conversion projects revealed that as against the estimated credit towards released materials of `1,870.15 crore, the actual realization was `1,240.57 crore resulting in short realization of `629.58 crore. Work-wise details of estimation and actual realization of Credit for Released Rail Materials were not available in NER and ECR and hence the correctness of realization (whether on gauge conversion projects or track renewal works) and accountal of Credit for Released Rail Materials could not be verified. As against the estimated value of `1,150.47 crore, the actual realization was only `473.37 crore resulting in short realization of `677.10 crore (58.85 per cent) in 26 projects. In 16 other projects as against the estimated value of `274.95 crore, the actual realization was ` 590.89 crore. In SECR and ER, no credit was earned though the credit for Released Rail Materials in respect of four projects was estimated at ` 70.32 crore. On being enquired about the reasons for so much differences in estimated and actual realization of credits for released materials, the Committee have been apprised that this variation occurred depending upon the quality of the material released, its subsequent sale by way of auction and market fluctuation. Ministry have also informed that in light of the Audit objections, Railways have been strictly instructed to follow the codal provisions. The Committee deplore the casual approach of the Ministry in dealing with such an important issue. Since non-maintaining of the records of credit for released material by the Zonal Railways and no/lesser amount of credits realised than anticipated give rise to the possibility of embezzlement of public funds, the Committee desire that responsibility of the officers concerned with the aforesaid cases may be fixed at the earliest and the Committee be informed about the steps taken in this regard so as to avoid recurrence of such cases in future.

8. The Committee note that in 13 projects executed on cost sharing basis with the State Governments, the Railways incurred `394 crore more than its agreed percentage share of cost incurred. Excess expenditure amounting to ` 270.38 crore by Ministry of Railways due to short receipt of funds from Government of Maharashtra for Mumbai Urban Transport Project (MUTP) being executed by Mumbai Rail Vikas Corporation Limited (MRVC) has been commented upon in the Annual Accounts of the MRVC Limited for the year 2012-13. This could lead to financial burden on the Ministry of Railways which is already facing resource crunch. When enquired about the reasons thereof, the Committee have been informed that in certain cases cost overrun may happen in view of increased costs of labour, material as these projects may get delayed and take time to be fully executed. It has also been informed that the realization of increased cost is a time taking exercise and while the work itself cannot be stopped merely for want of funds from the deposit making party, the work continues and Railways bears the cost, subject to final receipt of the increased share from the State Government. In their reply to Audit, the Zonal Railway (SCR) Administration stated that the State Government is being requested to release the funds based on the progress of the projects. Accordingly, Railway Board is also being requested to allot fund in August Review and Revised Estimates. However, the final allotment of additional funds by Railway Board is known only at the time of allotment of final grant. Hence there is difference in allotment of funds by the State Government and Railway Board. However, the differences, if any, are adjusted in subsequent years. The Committee feel that for execution of any project, it is imperative that the same may be monitored regularly for their timely completion so as to avoid time and cost overrun. The Committee, therefore, emphasize that the Ministry of Railways should prepare investment schedule of all on-going projects after proper consultation with concerned State Governments so that the cost of sharing projects is not exceeded. Further, Railway Board should ensure that the instructions issued by them regarding monthly reporting of the investment made/expenditure incurred by other parties through Extra Budgetary Resources (EBR) are scrupulously followed by them so as to ensure the proportionate and timely funding by State Governments.

Control over expenditure

9. The Committee note that test check of 525 works relating to monthly review of expenditure revealed that while the Plan-head-wise monthly review by Accounts Office was conducted in respect of 367 works; the same was not conducted for the remaining 158 works; and Work-wise monthly review by Accounts Office was not conducted in respect of 210 works. Monthly review was, however, conducted for the balance 315 works. The Committee regret to observe that no reasons for not conducting monthly reviews as prescribed in the Financial Code have been enumerated by the Ministry. They have also not elaborated on the steps taken to ensure conducting of effective monthly reviews as contemplated in the Financial Code. The Committee are constrained to observe that in the absence of conducting periodical review of works, how could the Railways exercise control over expenditure. Thus, the Committee feel that there is an urgent need to conduct two monthly reviews one by Plan-heads of the Grants and the other by individual works so as to keep control over expenditure on the works executed under Grant No - 16. The Committee would like to be informed of the steps taken in this regard and such review meetings held after pointing out by Audit and outcome thereof within two months of the presentation of this Report.

Further, a comparison of figures of allotment and utilization of funds during 2012-13 revealed that there was a wide variation between the budgeted figures and the actual expenditure. This leads the Committee to the conclusion that Ministry of Railways have failed to precisely anticipate, assess and provide for the funds actually required by them. The Committee would, therefore, recommend that the Ministry of Railways should pinpoint the inadequacies and evolve an effective mechanism to bring systemic improvement in accurate estimation of budget requirements.

Excess over sanctioned estimate

10. The Committee are appalled to note that in respect of 60 works projects, expenditure of ` 44.35 crore was incurred without sanction of estimate and `4,957.52 crore was incurred in excess of sanctioned estimate in respect of 555

projects/works. Thus expenditure of ` 5,001.87 crore incurred on 615 projects ranging from one year to more than twenty years remained unsanctioned as of March 2013. What is still more disturbing is the fact that these unsanctioned expenditure remained un-regularised for two decades depicts the slackness on the part of the concerned Executive departments for not following these cases and getting them regularised for such a long period. The Committee would like to know as to whether any responsibility has been fixed against the concerned officers for showing laxity in such cases. Now, the Committee have been informed that Zonal Railways have been instructed to make action plan to fix a target for regularisation of all pending items of unsanctioned expenditure and review the position periodically so that pendency in this head is eliminated. It is thus evident that no sincere efforts were made by the Ministry to devise a mechanism to seriously address this issue before pointing out by Audit. Obviously such cases indicate not only apparent inadequacies in the accounting system in the Railways but also glaring lapses on the part of accounting officials. The Committee, therefore, strongly recommend the Ministry of Railways to enquire into the reasons for such a long pendency for sanctioning of expenditure in order to identify the individual officers responsible for such a glaring lapse and to initiate disciplinary action against them. The Committee would like to be apprised of the concrete action taken by the Ministry of Railways in this regard within a period of three months. The internal control mechanism should also be strengthen so as to avoid incurring of expenditure without proper sanction by the competent authority and also to timely regularise the unsanctioned expenditure. The Committee would also like to be apprised of the present status of regularisation of all pending items of unsanctioned expenditure.

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