
EXECUTIVE SUMMARY

Background

Indian Railways (IR) is a departmental commercial undertaking of the Government of India. Due to merger of Railway Budget with the Union Budget, the summary and comments on the Appropriation Accounts of IR are now included in the Report of the Comptroller and Auditor General of India on Union Government –Accounts of the Union Government (Financial Audit).

The Chapter 1 of this report focuses on financial performance of Indian Railways with reference to the previous year, as well as the overall trends.

The Chapter 2 contains an overview of the financial performance of the Railway PSUs.

The Chapter 3 of the report contains audit observations on the efficiency and effectiveness of Integrated Pay Roll and Accounting System (IPAS) in delivery of desired outcome.

Summary of conclusions

Audit observed that during 2019-20, the Total Receipts decreased by 8.30 *per cent* as compared to 6.47 *per cent* increase in 2018-19. The decrease in 2019-20 was mainly on account of shortfall in Freight Earnings and Sundry Earnings as compared to 2018-19. There was heavy dependence on transportation of Coal which constituted 48.82 *per cent* of Freight Earnings. Any shift in bulk commodities transport pattern could affect the freight earnings significantly.

[Para -1.1 and 1.2.3 (a)]

During 2019-20, the profit from freight traffic (₹ 28,746.06 crore) was utilized to compensate the loss of ₹ 63,364.25 crore on operation of passenger and other coaching services. The loss of ₹ 34,618.20 crore in passenger operations was left uncovered during 2019-20.

[Para -1.3]

Net surplus was ₹ 1,589.62 crore in 2019-20, as compared to ₹ 3,773.86 crore in 2018-19. Railways would in fact, have ended up with a negative balance of ₹ 26,328.39 crore instead of surplus of ₹ 1,589.62 crore, had the actual amount (₹ 48,626 crore) required to meet the expenditure on pension payments of Zonal Railways been appropriated to the Pension Fund (instead of ₹ 20,708 crore).

[Para -1.5]

Against the target of 95 *per cent* in the BE, the Operating Ratio (OR) of Railways was 98.36 *per cent* in 2019-20. The OR deteriorated from 97.29 *per cent* in 2018-19 to 98.36 *per cent* in 2019-20. Further, the OR of the Railways would have been 114.35 *per cent*

instead of 98.36 *per cent*, if the actual expenditure on pension payments was taken into account. Thus, the OR of 98.36 *per cent* shown by the Railways does not reflect the true financial performance of the Railways.

[Para -1.6.1]

The overall fund balances which was as high as ₹ 10,806.68 crore in 2015-16 turned into negative balance of ₹ 25,730.65 crore in 2019-20 for the first time. The adverse fund balance was the result of more expenditure towards pension payments than the actual appropriation to the Pension Fund.

[Para -1.7]

During 2019-20, appropriation to Depreciation Reserve Fund (DRF) decreased significantly as compared to the previous years (from ₹ 5,800 crore in 2015-16 to ₹ 600 crore in 2019-20). Under provisioning for depreciation resulted in piling up of ‘throw forward’ works estimated at ₹ 95,217 crore up to 2019-20.

[Para -1.7.1]

The amount of investment in equity and loans in Railway PSUs as at the end of March 2020 was ₹ 3,16,437 crore. During the last two years, the major contribution of investment in the Railway PSUs was through Long Term Loans from Financial Institutions and others. The Long Term Loans increased from ₹ 1,98,585 crore in 2018-19 (84 *per cent* of the total Investment) to ₹ 2,68,126 crore during 2019-20 (85 *per cent* of the total investment).

[Para -2.6]

As on 31 March 2020, shares of the five Railway PSUs (Container Corporation of India Limited, IRCON International Limited, RITES Limited, Indian Railway Catering and Tourism Corporation Limited and Rail Vikas Nigam Limited), were listed on the various stock exchanges in India. The total value of market capitalization of the shares of these Railway PSUs as on 31 March 2020 was ₹ 48,337 crore.

[Para -2.6.3]

The overall profits of the Railway PSUs during the past three years had increased from ₹ 4,999 crore (2017-18) to ₹ 6,536 crore (2019-20). Profitability in financing, consultancy and catering, tourism & hospitality activities had steadily increased over past three years. However, the profitability had decreased in construction, logistics and communication & network activities.

[Para -2.7.1 and 2.7.2]

Out of 40, 30 Railway PSUs had earned profits after tax during 2019-20. 11 Railway PSUs had declared dividend amounting to ₹ 1,856 crore during the year.

[Para -2.7.3]

Return on Equity of the Railway PSUs had steadily decreased from 9.17 *per cent* in 2017-18 to 7.53 *per cent* in 2019-20, though there was a slight increase in the Return on Equity during 2018-19. Indian Railway Catering and Tourism Corporation Limited has the highest Return on Equity of 39.81 *per cent* during 2019-20 followed by RITES Limited (23.15 *per cent*) and Rail Vikas Nigam Limited (17.55 *per cent*).

[Para -2.7.4]

In 2008, IR developed and implemented a web based application “Integrated Payroll and Accounting System” (IPAS) in East Coast Railway. The application was, subsequently, implemented in the remaining Zonal Railways (ZR) during 2011-16. The primary objectives of IPAS were to get real time access to financial transaction data in addition to automation of Pay Roll, Finance and Budgeting.

[Para-3.1]

IPAS comprised of 20 modules and 64 sub-modules. The overall status of implementation of these modules/sub-modules ranged between 59 *per cent* (WCR) and 90 *per cent* (WR). The extent of implementation of some of the modules such as Quarter, Electricity, Traffic Modules was very insignificant.

[Para-3.3]

Audit observed that IR failed in achieving automation of budgetary control through implementation of IPAS. Budget compilation and manual reconciliation continued outside IPAS.

[Para-3.4.1 and 3.5.1]

As per IPAS Implementation Guidelines, ZRs were required to migrate legacy data to IPAS and carry out requisite validation. Audit observed that porting of data into IPAS was not complete. This had resulted in data inconsistencies in employee database, incorrect categorization of employees for Provident Fund (PF) and mismatch of PF balances of employees etc. Books Module could not effectively be utilized due to incomplete/non-porting of legacy data.

[Para-3.5.1]

There was lack of proper validation control besides absence of extant rules/provisions inbuilt into IPAS for efficient delivery of output. Audit observed several instances of acceptance of erroneous data by IPAS, irregular withdrawal of PF, National Pension System (NPS) and excess payment of allowances to employees. Absence of relevant provisions in IPAS led to avoidable payment of interest due to incorrect flagging of Input Tax Credit.

[Para-3.5.2 & 3.5.3]

Audit observed that partial integration of IPAS with other IT applications in operation in IR had affected seamless flow of data. There were instances of inefficient management

of users. There was inordinate delay either at RB level or at CRIS in addressing various issues flagged by the ZRs for upgradation of the system.

[Para-3.4.1.2, 3.5.4 and 3.5.5]

Recommendations

Ministry of Railways -

- i. Needs to take steps to diversify their freight basket to enhance freight earnings and also consider to exploit its idle assets to increase other earnings.*
- ii. Needs to take steps to augment their internal revenues, so that dependence on GBS and EBR is contained.*
- iii. Needs to revisit the passenger and other coaching tariffs so as to recover the cost of operations in a phased manner and reduce its losses in its core activities.*
- iv. Needs to ensure that surplus and Operating Ratio represent a true picture of its financial performance.*
- v. Needs to address the backlog of renewal of over-aged assets for safe running of trains.*
- vi. May consider speeding up the winding-up process of non-working Railway PSUs.*
- vii. May consider reviewing the working of loss making Railway PSUs.*
- viii. May consider framing strategic IT plan at macro level instead of ad-hoc development of applications.*
- ix. May consider expediting sanitization of database and porting of legacy data into IPAS with requisite validation controls.*
- x. May consider to introduce appropriate business rules in all modules and sub-modules for effective functioning of IPAS.*
- xi. May consider to fix responsibility for improper management of IPAS.*
- xii. May consider formulating time bound effective action plan to improve efficiency of CRIS in management and continuous upgradation of IPAS by developing internal expertise for continuity.*