

# Note on Status of Accounting Reforms in Indian Railways

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## 1. Objective of the Note

1.1 The urgent need of implementing Accounting Reforms<sup>3</sup> (AR) in Indian Railways (IR) is widely recognized and accepted. AR Project, as it is being undertaken, comprises three distinct modules. Module 1 relates to preparation of financial accounts of Indian Railways on “Accrual Basis”. This refers to preparing financial statements in a manner that a transaction is recognized in books of accounts at the time it happens. This is in contrast with the current practice of preparing accounts which recognizes a transaction in the event of cash flows. Module 2 relates to development of a Performance Costing framework that could help assess costs of various activities (business-wise /service-wise etc.) undertaken by Railways in an objective manner. The last module – Module 3, relates to Outcome Budgeting, which refers to a framework that links financial outlays with specific outcomes.

1.2 AR project has been on the anvil since 2003 when it was first mentioned in the Railway Budget speech by the then Minister of Railways (MR). Following the announcement, the AR project was sanctioned in the Railways’ works program in 2004-05. IR appointed a consultant in 2006 for undertaking necessary studies required for accounting reforms.

1.3 However, due to various reasons and lack of a ‘mission mode approach’, the project lingered on and could not be concluded. The consultants did submit their final report in July 2010. But gaps in their output vis-à-vis the terms of reference remained, addressing which, took the next few years. To state it more directly, the idea stagnated between 2004 and 2014. The AR project witnessed a serious thrust only in Dec 2014/Jan 2015, when the Ministry of Railways (MOR) decided to implement the accrual accounting (Module 1) pilot in Ajmer division and Ajmer group of workshops. The scope of the Ajmer division pilot was later expanded to include North Western Railway (NWR). In Feb 2015, the Railway Minister, in his Budget speech 2015-16, articulated the overall vision of the AR project and included Performance Costing (Module 2) and Outcome Budgeting (Module 3) modules, besides developing financial accounts on accrual basis. In the budget speech of 2016-17, the Minister further announced implementing the project in a “mission mode” and “Mission Beyond book-keeping” was instituted. In April 2016, the MOR (Ministry of Railways) also decided to implement a similar pilot in a Production Unit for creating financial statements based on accrual accounts. RCF Kapurthala was identified for this.

1.4 Between December 2014 and December 2016, MOR made reasonable progress on the AR project. A range of project activities laying the necessary ground work and foundation for roll out across the Indian Railways have been completed. Some other activities are in advanced stages of completion. A review of timelines of various activities

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<sup>3</sup> Article 150 of the Constitution prescribes that the accounts of the Union and of the States shall be kept in a form as prescribed by the President on the advice of Comptroller and Auditor General of India. CAG currently does not mandate accounting on accrual basis. Hence, while IR is developing its accounts on accrual basis, it may still be required to prepare accounts on cash – basis as well.

planned going forward suggests that MOR is likely to be ready with a final roll out of accrual accounting within about two years from now. During this time frame, MOR also targets to complete a pilot for Performance Costing at Delhi division of NR. So two years from now, MOR is expected to reach a stage where Accrual Accounting is likely to have been rolled out across IR systems and Performance Costing and Outcome Budgeting modules would be ready for roll outs across the IR system within a short-term duration. The “mission mode” approach backed by a suitable project implementation organization and roping in of expert professionals further support IR’s intent and institutional strategy to facilitate implementation.

1.5 Against the above context, the focus of this note is primarily to present the background of this project, status of various activities undertaken so far and detail out the way forward in terms of timelines and implementation strategy. Aspects such as why AR, its benefits, technical details etc. have not been dealt with, to limit the focus. Accordingly, this note may be used as a background reference to get information about the project implementation status and way forward. It may be further noted that the information presented in this note is largely based on primary inputs obtained from senior IR officials, as well as independent review of relevant documents published or available on the IR website.

## **2. Background and Project status so far**

2.1 Following recommendations of expert committees and stipulations of the Government Accounting Standards Advisory Board (GASAB)<sup>4</sup> in August 2002, AR was first mentioned in the speech of the Railway Budget 2003-04 (February 2003). Paragraph 40 of the 2003-04 budget speech of the Minister of Railways (MR) stated *“To transform the Indian Railways into customer-oriented organization, it is proposed to improve its accounting system. In this regard, it is planned to review the existing accounting policies and practices and to introduce fully computerized accounting and Management Information System so as to generate costing data on passenger and freight services on commercial lines”*.

2.2 This announcement was followed by sanctioning of an AR project, funded by the Asian Development Bank, in the Railways’ Works program 2004-05. As part of this program, an AR consultant comprising a Bangladeshi firm – M/s SF Ahmed & Co. as the lead was appointed in February 2006. The Terms of Reference (TOR)<sup>5</sup> of the consultant included:

- a) Ensure compilation of Government accounting as per accounting standards stipulated by Government Accounting Standards Advisory Board (GASAB);
- b) Ensure compilation of railways accounts in commercial accounting form (Accrual based Accounting) as per Generally Accepted Accounting Principal (GAAP) in segmental accounting mode (Accounting separation of each Lines of Business (LOB) like Passenger, Freight, Suburban and Fixed Infrastructure) and further sub-classification into Lines of Service (LOS) for Profit center accounting;

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<sup>4</sup> The GASAB stipulated guidelines to formulate accounting standards for both cash accounting and accrual accounting in Government departments.

<sup>5</sup> Source:

[http://www.indianrailways.gov.in/railwayboard/uploads/directorate/acc\\_ref/AR\\_Project\\_Status/Status\\_ARP.pdf](http://www.indianrailways.gov.in/railwayboard/uploads/directorate/acc_ref/AR_Project_Status/Status_ARP.pdf)

- c) Ensure costing of train operations train wise, section wise, route wise and related profitability analysis;
- d) Ensure Activity Based Unit costing for cost analysis and cost control management.

2.3 The AR consultants submitted their inception report in May 2006, which was accepted by the Railway Board. A report on the current state was submitted in August 2006. A subsequent state report/Midterm report was submitted in December 2006. Thereafter, the AR consultants submitted their Draft Final Report (DFR) on 13 July 2007, which was not accepted due to non-adherence with the TOR. This resulted in a stalemate that continued over the next 18 months, leading to multiple discussions between Railway Board officials and the consultants. The consultants agreed to re-work their report and revised their recommendations in March 2009. A Final Report (FR) was submitted in July 2010, which had some further limitations and gaps, especially on cost systems proposed. After rounds of further consultations, in July 2013, the consultants agreed to address the gaps and limitations and their revised Final Report was circulated to all Directorates of Railway Board in April 2014 for review and comments. The Consultants were asked to test their proposed recommendation in the field units through a Pilot study on one of the Railway Divisions. However, they had reservations on this, as a Pilot study was not included in the assignment TOR<sup>6</sup>.

2.4 Later, in June 2014, the Ministry initiated discussions with the Institute of Chartered Accountants of India (ICAI) for undertaking a Pilot study in one of the Railway Divisions for introduction of Accrual Based Accounting System and validation of the AR Report. The Accounting Reforms Foundation (ARF) of ICAI was appointed and Ajmer division and Ajmer group of workshops (North Western Railways – NWR) were chosen for the pilot implementation. On-ground work on this pilot project in Ajmer division started around December 2014. The key activities under the pilot implementation project awarded to ARF – ICAI included:

- a) To conduct Pilot Study for introduction of Accrual Accounting at Ajmer division and Ajmer group of workshops of NWR;
- b) Compile accounts of Ajmer division and Ajmer group of workshops under Accrual accounting mode and also draw up financial statements i.e Profit & Loss Accounts, Balance sheets etc.;
- c) Compile a detailed manual for implementing accrual accounting in other zonal railways and production units.

2.5 The on-ground implementation of the pilot continued at Ajmer over the next few months in 2015. While the focus of the pilot project was primarily to compile accounts on accrual based accounting, in Feb 2015, the Railway Minister, in his speech at the time of the Railway Budget 2015-16, articulated a larger vision and strategy for AR in Railways. Para 88 of the Budget speech stated - *“Madam Speaker, we have limited resources and thus must ensure that all public expenditure results in an optimal outcome. We, therefore, intend to set up a working group to modify the present system of accounting, to ensure tracking of expenditure to desired outcomes. The data on costing would be available online*

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<sup>6</sup> Source of this paragraph:

[http://www.indianrailways.gov.in/railwayboard/uploads/directorate/acc\\_ref/AR\\_Project\\_Status/Status\\_ARP.pdf](http://www.indianrailways.gov.in/railwayboard/uploads/directorate/acc_ref/AR_Project_Status/Status_ARP.pdf)

*including costs incurred on constructing, augmenting, maintaining and operating railway lines. This would also help in undertaking post commissioning evaluation studies.”* The Minister’s statement above outlined three integral modules of AR project in Indian Railways. These modules<sup>7</sup> included:

- a) Module 1: Accrual Accounting: Creating financial statements on accrual based accounting to facilitate assessment of true and fair financial position of IR and bring transparency and clarity in the manner its accounts are represented.
- b) Module 2: Performance Costing by facilitating online availability of costing data: Developing a performance costing framework that identifies appropriate costs and profit centers and allocates costs to such centers. Timely availability of this information would lend transparency and objectivity to management decisions on pricing, efficiency measurements and benchmarking, identifying investment priorities etc.
- c) Module 3: Outcome budgeting: Linking outlays to well-defined outcomes in areas of operations, maintenance, procurement and infrastructure creation.
- d) Linked to the above three components is the development of an integrated IT based system which would be implemented across IR network. This IT system would interface with the existing applications (such as PRS, FOIS, IPAS etc.) and would provide smooth, secure and seamless integration for MIS reporting.

2.6 The pilot project in Ajmer led to the creation of fundamental enablers for developing financial accounts on accrual basis. Such enablers included principles for creating Fixed Asset Register, depreciation principles, guidelines for asset valuations where cost data is not available and so on. Around September / October 2015, the Ministry thereafter expanded the scope of this pilot and entire North Western Railway – NWR zone (comprising 4 divisions including HQ at Jaipur, 3 Workshops and other units) were included for pilot introduction of accrual accounting. Around April 2016, Rail Coach Factory (RCF) Kapurthala was also identified for piloting accrual accounting at Production Units (PUs) of Indian Railways.

2.7 In Feb 2016, the Minister of Railways in his Budget Speech announced implementing the AR project on a mission mode. Para 121(f) of the Budget speech 2015-16 stated - *“Being a Government undertaking, IR does not follow practices in accounting which aid detailed assessment of unit costs. Though we are moving from single entry to double entry systems and from cash based to completely accrual based accounting, I do not consider them as great reforms. As a thriving commercial entity, we also want IR to go a step further and establish an accounting system where outcomes can be tracked to inputs. This is a structural change which forms the bedrock of our transformation, as right accounting would determine right costing and hence right pricing and right outcomes. We intend taking up its implementation over Railways in a mission mode and complete the entire roll out in next few years.”*

2.8 Consequently, “Mission beyond book-keeping” was instituted and a dedicated project organization, with Advisor (Accounting Reforms) as the Mission Director assisted by one Director level officer at Railway Board and a Chief Project Manager (CPM) – AR

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<sup>7</sup> Source: IR document titled “Executive Summary of Accounting Reforms in Indian Railways”

at Northern Railway, got functional. To augment this organization on field, Accounting Reforms cell at all Railway zones and PUs are also being created. The institutional strategy for implementing this project in a mission mode is elaborated in the sections below.

2.9 The pilot project at NWR completed in September / October 2016 and this led to the development of the following documents:

- a) Accrual based financial statements for NWR for the year ending 31<sup>st</sup> March 2015. This includes the Opening Balance sheet starting 1<sup>st</sup> April 2014, Closing Balance sheet as on 31<sup>st</sup> March 2015, Profit & Loss account for the year 2014-15 and Cash Flow statement for 2014-15;
- b) Notes to accounts and disclosures;
- c) Significant accounting policies for accrual based financial statements of NWR;
- d) Accrual accounting implementation manual for roll out across railways and production units.

2.10 In December 2016, the Accounting Reforms cell organized a National Conference on “Accounting Reforms in Indian Railways – A Strategic Mission for sustainable growth”. The Finance Minister and the Railway Minister released the above documents at this conference. The NWR pilot led to the creation of not only the pilot financial statements (Balance sheet, P&L account and Cash Flow) for a railway zone, but also helped create holistic manuals and guidelines for accrual accounting. These documents are currently being circulated to all zonal railways for reference and guided roll out of accrual accounting at respective zones. It may be noted that the templates and guidelines for developing Fixed Asset Registers (FARs) had already been circulated to all zonal railways during the NWR pilot study. It is understood now that all zonal railways are already in the process of constructing the FARs for 31<sup>st</sup> March 2014.

2.11 The pilot study at RCF Kapurthala is presently in advance stages of completion and draft output documents are under review and finalization. It is expected that the output documents – financial statements, accounting policies and implementation manuals for RCF Kapurthala would be circulated to all Production Units (including Central Organization for Modernization of Workshops (COFMOW) and Central Organization for Railway Electrification (CORE)) of IR by March/April 2017 for guided roll out in a manner similar to that for zonal railways.

2.12 On the IT system front, Center for Railway Information System (CRIS), has been identified for developing the integrated IT based system for all 3 modules of Accounting Reforms. This IT system would interface with the existing applications (such as PRS, FOIS, IPAS etc.) and would provide smooth, secure and seamless integration for MIS reporting. CRIS is the process of rolling out a computerized cash-based financial management system - Integrated Payroll and Accounting System (IPAS). Hence, its experience would be an added advantage while integrating data captured to produce cash-based accounts with that required for developing accrual accounting.

### **3. Way Forward and Proposed Timelines**

3.1 Having detailed the background and work done so far in the AR project, the paragraphs below summarise the way forward and proposed timelines. This section is

based on inputs given by the concerned IR officials and independent review of supporting documents.

#### **A. Module 1: Roll out of Accrual accounting across zonal railways and Production units**

3.2 As mentioned previously, the pilot study at NWR is complete and the output documents are being circulated to zonal railways for reference and roll outs. The ICAI – ARF team provided an important consulting support in helping IR finalize the NRW and RCF Kapurthala pilots. To leverage this hands-on experience and learning, MOR has further engaged ICAI – ARF to help roll out accrual accounting across zonal railways and production units. Accordingly, ICAI-ARF will now deploy its resources across the IR setup to hand-hold implementation of this project. Some key elements of this engagement include:

- a) Deploy its personnel at all zonal Railways / Production Units and work in close collaboration with the designated IR official team to implement roll out;
- b) Updation of the Comprehensive Scope Evaluation Report (CSER) in respect of unique aspects specific to each Zonal Railway/Production Unit and recommend accrual based accounting treatment of these unique aspects of each Zonal Railway/Production Unit. For example, NWR is a pre-dominant non-electrified railway. Similarly, NWR does not operate sub-urban local train systems. The impact of such differences at various zones will be reviewed and ICAI-ARF team will recommend accounting treatment of these aspects in their study;
- c) Construction of Fixed Asset Register to facilitate preparation of opening Balance sheets as on 1 April 2015;
- d) Preparation of financial statements (P&L account, Cash flow statements, Balance sheet, notes to accounts, disclosures and significant accounting policies) based on accrual accounting for all zonal railways and production units for the year 2015-16 and 2016-17;
- e) Conduct required training and hand-holding and co-ordinate with CRIS and Institute of Cost Accountants of India (ICWAI) for smooth integration of other modules of the AR Project.

3.3 For this purpose, ICAI – ARF is expected to deploy more than 100 personnel and expert professionals across zones, Production Units and Railway Board throughout the term of the engagement. The work is likely to start in Feb/March 2017 and ICAI – ARF is expected to submit its deliverables as per the terms of engagement within 18 months. Accordingly, as per the project plan, Module 1 – Compiling financial accounts through Accrual Accounting across the IR network is planned to be implemented around August/September 2018.

#### **B. Module 2: Performance Costing**

3.4 Parallel to the ongoing roll out of accrual accounting across IR setup, MOR has awarded the pilot roll out of Module 2 – Performance Costing to Institute of Cost Accountants of India (ICWAI). As part of this project, IR has selected Delhi Division of Northern Railway (NR) for the pilot study. ICWAI is expected to deploy its experts and

professional staff at Delhi division. The broad objective of this project is to create a framework of an integrated accounting and costing architecture for pricing various activities and which would ensure online availability of costing data through an IT system. Some key elements of this engagement include *inter-alia*:

- a) Deploy a project team at Delhi Division and facilitate day-to-day interaction with key stakeholders of the project at Railway Board directorates, other zones and production units;
- b) Undertake comprehensive study of the existing costing system;
- c) Identify limitations/gaps and areas of improvement required at each stage of sourcing/ capturing of operational and costing data for costing purposes from existing applications of IR viz. PRS, UTS, FOIS, ICMS, IPAS etc.;
- d) Propose a framework for pricing the various infrastructure maintenance, and operation services in order to facilitate a nondiscriminatory approach towards enabling access to these services;
- e) Design framework of an integrated accounting and costing architecture which could be converted into an IT application to ensure online availability of costing data. Interact with the Centre for Information System (CRIS) officials for understanding the existing information systems and the possibility of their interface with the Accounting system so as to generate online costing data and preparation of IT application for implementation of the recommendations of this assignment;
- f) Hold seminars aimed at disseminating the approach and findings of the study and for capacity building for the implementation phase.

3.5 For this purpose, ICWAI is expected to deploy around 30 personnels and expert professionals. The work is likely to start in Feb/March 2017 and ICWAI is expected to submit its deliverables as per the terms of engagement within 20 months. Accordingly, as per the project plan, the pilot for Module 2 – Performance costing at Delhi is planned to be completed around October/November 2018.

### **C. Module 3: Outcome Budgeting**

3.6 This module essentially relates to linking outlays to specific outcomes. The output of the two modules above would serve as an integral input for this module. The broader principle has also been outlined by the Minister of Railways in his budget speech 2016-17 when he stated that right accounting would determine right costing and hence right pricing and right outcomes. An Advisory Body was established vide Railway Board order No. ERB-I/2015/23/41 dated 19-10-2015. ICAI was engaged to conduct a preliminary study and propose a draft concept paper on Outcome Budgeting in IR. The concept paper was drafted by ICAI and has been submitted.

3.7 Consequent to this, MOR proposes to shortly constitute an internal working group comprising senior officials to deliberate on the framework and methodology for this module. Once the overall framework and templates are finalized, the outputs of accrual accounting and performance costing modules would be used to develop outcome budgeting. The MOR is expected to finalize outcome budgets in sync with the timelines of the two modules above.

## D. Developing IT architecture for AR modules

3.8 Regarding the integrated IT architecture for the AR modules, as has been mentioned previously, CRIS has been identified as the IT partner. MOR is finalizing a Memorandum of Understanding (MoU) with CRIS for developing necessary architecture and IT interfaces to integrate the accrual accounting and performance costing frameworks.

### 4. Institutional Strategy – Implementing AR in mission mode

4.1 Pursuant to taking up AR project in mission mode, the MOR has adopted a two-tier (at Railway Board and Zonal Railways / PU's) institutional structure to ensure implementation and roll out of AR across the Indian Railways in a time-bound manner. As mentioned earlier, the MOR had already created an Accounting Reforms Cell (AR Cell) at Railway Board. The AR Cell at the Board is headed by Advisor (AR) and is currently assisted by one Director level official. A project implementation organization headed by Chief Project Manager (CPM) at Northern Railways has also been created and the CPM is being assisted by two Deputy CPMs. The FA & CAO – NR is responsible for co-ordinating, along with the GM – NR, implementation of the AR project and supporting the CPM in activities which require finance concurrence and other logistics, data related support. A similar structure is envisaged to be set up at PU's in due course.

4.2 The key aspects of this implementation structure are summarized below.

Sl. No.	Structure	AR Project Implementation Structure	Key Roles	Status
1	AR Cell – Railway Board	Advisor – AR (Railway Board)	Mission Director – Overall responsibility for rolling out all the 3 modules of AR project across IR Review, monitor and co-ordinate for approval of professional and technical aspects of the project	Already in place
2		ED/Director – AR (Railway Board) – two posts	Assisting Advisor (AR) in all his functions. One official responsible for Module 1 – Accrual Accounting roll out and other official responsible for Modules related to Performance Costing and Outcome Budgeting	A Director level official already in place. Another ED level official likely to be nominated soon.
3	AR Cell – Project Implementation Organization at NR	CPM/AR (Northern Railway)	Responsible for implementing the 3 modules of AR project across IR. Co-ordinate and support all zonal railways (FA&CAO and Regional Project Managers of all zones) and PU's for roll out of Module 1 – Accrual Accounting Single-point contact for all professional support agencies –	Already in place



			ICAI, ICWAI, CRIS and Railway Board.	
4		Dy CPM/AR (Northern Railway)	Assist CPM/AR-NR in all his functions. One official responsible for Module 2 –Performance Costing and the other for Outcome Budgeting besides co-ordinating with zonal railways/PU's for rolling out Module 1 as per allocation	Already in place
5		FA&CAO (Northern Railway)	Co-ordinating, along with the GM – NR, for implementation of the AR project and supporting the CPM in activities which require finance concurrence and other logistics, data related support etc.	Already in place
6	AR Cell – Zonal Railways and PU's	Regional Project Managers (at zonal railways and PU's)	Responsible for implementing Module 1 – Accrual accounting at respective zones and PU's.	To be nominated shortly
7		FA & CAO (zonal railways and PU's)	Co-ordinating, along with the GMs, for implementation of Module 1 of AR project and supporting the regional project managers in activities which require finance concurrence and other logistics, data related support etc.	To be informed shortly
8		AGMs (at Zonal Railways) and ADRMs (for divisions)	As chief executives of zones / divisions, responsible to oversee implementation of Module 1 at their zones/divisions.	To be informed shortly

Source: Railway Board office order no. 38 of 2016 dated 24/06/2016 and discussions with AR Cell

## Training and Capacity Building<sup>8</sup>

4.3 Several Workshops and Seminars have jointly been organized by IR and ICAI ARF at various places to sensitize senior officers of the Accounts and Executive Departments. A structured course on Accrual Accounting is being held since November 2015 in the Centralized Training Academy of Railway Accounts (CTARA). About 1500 supervisors and 300 officers of the Accounts Department from all Zonal Railways have undergone this training till Dec 2016. IR and ICAI-ARF also shared their experience of North Western Railway during the National Conference held in December 2016. This conference was attended by around 400 stakeholders that comprised entire Railway Board, officials of CAG, bankers, lenders, senior executives and officials of Railway Finance directorate etc. Workshops on performance costing module have also been organized and about 170 officers have been sensitized with this initiative. Similar initiatives are likely to be continued over the subsequent months for rolling out AR project across the IR.

<sup>8</sup> Source of this paragraph: Document titled “Executive summary of Accounting Reforms in Indian Railways”

## 5. Concluding remarks

5.1 AR project in Indian Railways has been on the anvil since 2003 when it was first mentioned in the Railway Budget speech by the then Minister of Railways. However, due to various reasons and lack of a ‘mission mode push’, the project lingered on and could not be really implemented on-ground over the last so many years.

5.2 The AR project witnessed a serious thrust only around Dec 2014/Jan 2015 when the Ministry of Railways (MOR) started implementing accrual accounting pilot in Ajmer division and Ajmer group of workshops. The scope of the Ajmer division pilot was later expanded to include entire North Western Railway (NWR). The Budget speech 2015-16 articulated the AR vision and included Performance Costing and Outcome Budgeting modules besides developing financial accounts on accrual basis. In the budget speech of 2016-17, MR further announced implementing the project in a “mission mode” and “Mission Beyond book-keeping” was instituted. Pursuant to this, an implementing organization co-ordinated by the AR cell at the Railway Board got set up and RCF Kapurthala was identified for pilot implementation of accrual accounting.

5.3 There has been a reasonable progress towards implementing AR on ground over the period Dec 2014 to Dec 2016. The pilot project of creating financial accounts on accrual basis at NWR is complete. The output documents that include Financial Statements (Balance sheet, cash flow and P&L account), significant accounting policies, notes to accounts & disclosures, accrual accounting implementation manuals etc. have been released and are being shared with all zonal railways for reference and implementation roll outs. Creation of Fixed Asset Registers within all zones is also in advanced stages. The draft output documents of RCF Kapurthala are also being finalized. To facilitate smooth roll out of Module 1 – Development of financial accounts on accrual basis, MOR has appointed Accounting Reforms Foundation (ARF) of Institute of Chartered Accountants of India (ICAI). The ARF – ICAI would be deploying their team across zones and PU’s for roll out of this module.

5.4 Under Module 2 – Performance Costing, MOR has appointed Institute of Cost Accountants of India (ICWAI) for helping MOR develop framework of an integrated accounting and costing architecture and implement this pilot in Delhi Division of Northern Railways (NR). In parallel, CRIS has been roped in to create the IT architecture for developing the hardware and software interfaces of this project. Based on the timelines of the project works awarded to ICAI and ICWAI, within two years from now, MOR is expected to reach a stage where Accrual Accounting is likely to have been rolled out across IR systems and Performance Costing and Outcome Budgeting modules would be ready for roll outs across IR system within a short-term duration.

5.5 The table below summarizes the work done so far in this project and the way forward:

Sl No.	Milestone / Activity	Status and Expected Timelines
1	Pilot of Module 1 – Accrual Accounting for year ending 31 March 2015 at NWR	Completed around September 2016. Output documents released in December 2016
2	Pilot of Module 1 – Accrual Accounting for year ending 31 March 2015 at RCF Kapurthala	Draft reports and financial statements under reviews and finalization. Likely to complete by March / April 2017.

3	Roll out of Module 1 – Accrual Accounting across all Zonal Railways and PU’s	ICAI – ARF appointed for implementation support. Team deployment at all zones and PU’s likely in Feb/March 2017. Deadline ~ 18 months (Aug/Sep 2018)
4	Roll out of Module 2 – Performance Costing (Pilot Project)	ICWAI appointed for pilot implementation at Delhi Division - NR. Team deployment likely in Feb/March 2017. Deadline ~ 20 months (Oct/Nov 2018)
5	Roll out of Module 3 – Outcome Budgeting	MOR likely to constitute an internal committee to develop appropriate framework for this. Deadline – in sync with Module 1 and Module 2 (Oct/Nov 2018)
6	Development of integrated IT Infrastructure for AR – all 3 modules	CRIS appointed for the same. MoU with CRIS being finalized Deadline ~ in synch with Module 1, 2 and 3 above i.e Oct/Nov 2018
7	Institutional Organization	Two-tier implementation organization created. Regional Project implementation organization at all zonal railways and PU’s being set up.
8	Trainings and Capacity Building	Ongoing at regular intervals
9	<b>Overall completion of all 3 modules – including finalization and approvals</b>	<b>Target date for finalization and roll out of Module 1 across IR – Aug/Sep 2018</b> Post completion of Module 2 pilot at Delhi and post finalization of Outcome Budgeting framework by around Oct/Nov 2018, it should be possible to roll out these modules across IR set up in a shorter time frame.

*Source: Review of MOR documents and inputs from senior MOR officials*

5.6 A quick review of select Global experiences<sup>9</sup> indicate that different countries have taken roughly 4-6 years in effecting changes in their accounting practices. Australia took about 4 years (from 2009-2013) for implementing accrual accounting. Brazil took about 5 years (2003-2008) and WHO took about 6 years in implementing similar accounting changes. Taking Dec 2014/Jan 2015 as start reference date, the AR project timelines (with a target of completion by Feb/March 2019) look reasonable from this perspective.

5.7 That said, the success of AR is inter-linked with the success of all the activities listed above. All India roll out of Module 1 by Aug/Sep 2018 would create required foundation for performance costing and outcome budgeting modules. Pilot implementation of performance costing at Delhi would provide the desired framework to identify and assess costs. IT system would in-turn serve as the background enabler for this roll out. And hence, it is critical to ensure that there are no slippages in any of the target timelines above.

5.8 It is therefore suggested that progress of various modules be regularly monitored at the highest levels of IR leadership. Appropriate actions need to be taken in case the leadership perceives risk of slippages at any point of time. It is further suggested that regular updates about implementation progress vis-à-vis the project plan and timelines be shared with other stakeholders – PMO or the NITI Aayog. Such updates may be on a quarterly or a half-yearly basis. This mechanism would ensure that external stakeholders

<sup>9</sup> Source of this paragraph: Section 1.3 of the document “Enhancing transparency and accountability in Indian Railways” published by Ministry of Railways

also stay tuned with the progress of such a critical reform that has the potential to transform the decision making framework for Indian Railways.