

Chapter-I

General

1.1 Introduction

Finance Department of the Government of Andhra Pradesh had initiated the process for implementing an IT project, called Comprehensive Financial Management System (CFMS), a State-wide SAP based ERP system for covering all the financial transactions of Government in October 2016. SAP has taken over the development of the Project from M/s NIIT Technologies Limited (NIIT)¹ that had been appointed as the System Integrator (SI) for the implementation of CFMS project, earlier in February 2013 by the GoAP.

The Department has taken up several IT initiatives for the past two decades to facilitate day-to-day financial transactions. However, these systems were developed in different operating environments and platforms. Further, Drawing and Disbursing Officers (DDOs) used to initiate these transactions by sending hard copies to the respective treasuries with attachments and the same used to be audited by treasuries and processed for payments. This payment process was through an application called “IMPACT”. The compiled accounts were sent to PAG (A&E) in hardcopies, with some accounting data in soft format for processing in VLC². Reconciliation was also an issue due to multiple input points for accounting data.

In this context, the Government envisioned establishing a State-wide Comprehensive and integrated public financial management IT system with the objectives of “Efficiency in financial transactions, effectiveness in control, transparency in operations, accountability at all levels, sustainability in the long run and convenience to all stakeholders”. The broad outcomes envisaged from the implementation of the CFMS project include a ‘Single Source of Truth’ across the State accessible by all the stakeholders of the system, real time information availability, facilitating agility in decision making, speed and certainty of service delivery, convenience to all the Stakeholders, minimal reconciliations, and improved financial discipline in the State.

The project aimed at covering all stakeholders like Finance Department, Heads of Departments, Treasuries, DDOs, PAG (A&E), Reserve Bank of India (RBI), Scheduled Commercial Banks (Agency banks), Employees, Retirees, Social Security Pensioners and Citizens.

¹ GO Rt No 2097 Finance (OP.III-CFMS) Department dated 24.04.2013

² Voucher Level Computerisation (VLC) is an application used by the AG to compile the accounts of the State Government. Inputs for the compilation of accounts are receipt challans, receipt schedules, payment vouchers, compiled accounts and inter-government transactions received from other accounting offices and Reserve Bank of India

1.2 Prologue

M/s NIIT Technologies Limited (NIIT)³ had been appointed as the System Integrator (SI), which had in turn entered into an agreement with SAP on software licence and support agreement in March 2013.

GoAP revised the payment criteria through a novation agreement⁴ and entered into direct contract, in September 2016, with SAP for the annual SAP Enterprise support fees and licenses. Accordingly, SAP was made the SI of the project.

GoAP had formed, in February 2017, Andhra Pradesh Centre for Financial Systems and Services (APCFSS), a special purpose vehicle, 'not-for-profit' company *vide* Section 8 of the Companies Act, 2013 under the strategic control of the Government of Andhra Pradesh.

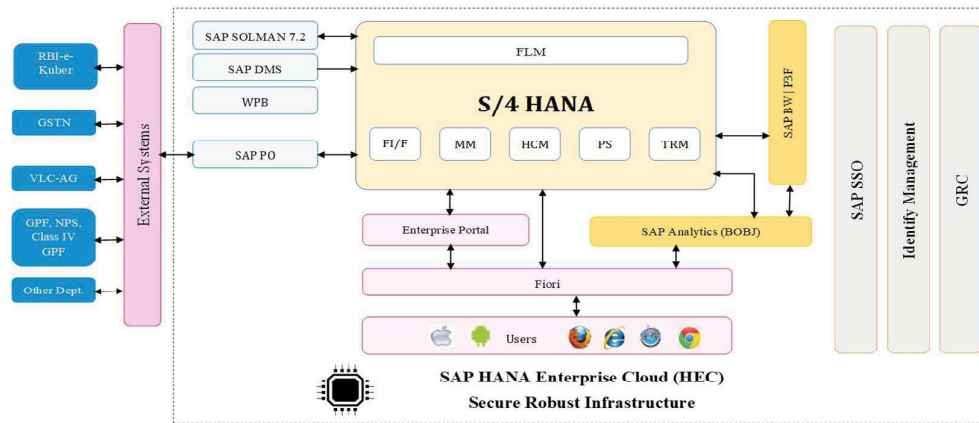
APCFSS was the nodal agency to facilitate CFMS project steering and evaluation monitoring. Accordingly, SAP developed the CFMS application, under the financial system S4 HANA 2.0 SP5, Cloud-PaaS (Platform as a service), at a project development cost of ₹ 200 crore and the Phase-I was rolled out by GoAP with effect from April 2018.

Core SAP modules which were used for the project are

- FLM module (File Lifecycle management),
- FI module (Financial Accounting),
- MM module (Material Management),
- HCM module (Human Capital Management),
- PS module (Project Systems),
- TRM module (Treasury Risk Management),
- AP module (Accounts Payable),
- BCM module (Bank Communication Management)

³ GO Rt No 2097 Finance (OP.III-CFMS) Department dated 24.04.2013

⁴ March 2013



Seven broad key process areas (KPA) of the project are - Budget Management, Revenue Management, Expenditure Management, Accounts Management, Debt & Investment Management; Human Resources Management and Ways & Means Management.

Three modules namely - Budget, Receipt and Expenditure – are rolled out since April 2018 under Phase-I of the CFMS project.



Application Design: CFMS application was designed with the SAP standard Accounting Tables like BSEG, BSIS, BSAK⁵ etc.; apart from these, versatile functions of the GoAP, were highlighted with numerous customised tables also. This customisation includes core business functions like beneficiary management, AC/DC Bills/ PD accounts etc.

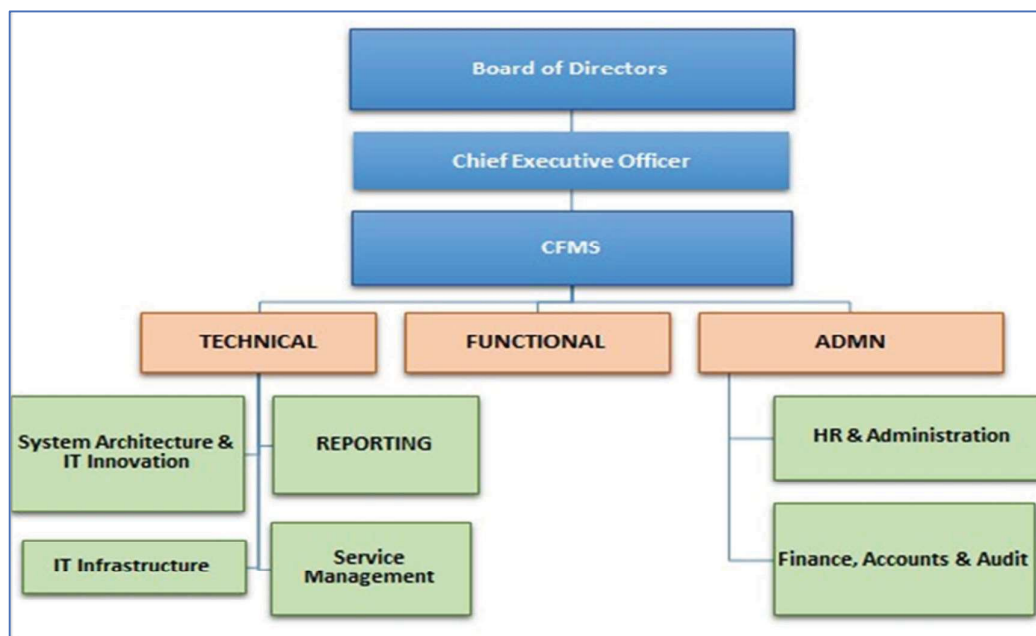
Core functions of the financial application in three modules, involved Customisation were as follows;

⁵ BSEG, BSIS, BSAK etc., are the SAP dedicated accounting tables

Table 1.1: Details of customized tables for operation of Core functions of the application

Module	Table name	Purpose
Expenditure Module	ZINT_EXCEP_MAINT	Intray ⁶ Maintenance table for First in First out protocol
	ZPD_HIERARCHY	PD Accounts hierarchical observer
	ZPD_DISB_DTLS	PD table for Disbursement Details
Receipt Module	ZFI_CHLN_CDOCA	Citizen payment Challan master table
	ZEXP_GSTR7_DTLS	GSTR7 Details History table
	ZFI_CHLN_EMP	Employee Challan Table
Budget Module	ZBUDGET_WF_VW	Budget distribution with DDO & SCO details
	ZGOAP_HOA	Head Of Account Master Table
	ZGOAP_DDO_HOA	DDO Mapping to Head of Account

1.3 Organisational setup of APCFSS



1.4 Business Benefits stated to be from the CFMS application

According to the GoAP, introduction of CFMS has brought the following new features in the accounting and financial management of the State.

- Digitization of Initial Accounts – The entire process of submission of the initial accounts has become electronic, to the extent of becoming paperless accounts. During the year 2017-18, O/o Principal Accountant General (Accounts & Entitlements) (PAG(A&E)) received 13,36,220 vouchers along with the other initial accounts all in physical papers. Post roll-out of CFMS, all these have become electronic. These accounts, including vouchers and challans, are

⁶ It is a method for handling data structures where the first element is processed first and the newest element is processed last

available in the access provided to both Principal Accountants General, Audit and A&E.

- Platform for integration and efficient controls – CFMS has brought all the Stakeholders of financial system – Controlling officers of Grants, heads of the departments, all field offices, Treasuries of the state on one platform. This gave new opportunities for seamless transfer of information between stakeholders, and for better controls in budget and expenditure management.
- Integration of all stakeholders and the various components of financial system brought together all information required for better MIS for the departments.

1.5 Need for this Audit

The GoAP shall perform all financial transactions and prepare initial accounts in accordance with legal requirements and financial reporting standards, mandated by the C&AG of India. Any IT system for this purpose should also meet all these requirements in their design and operation, which should be ensured through robust and effective controls (IT and non IT).

The CFMS had completed three financial years, 2018-19 to 2020-21, when this audit was planned. All the receipts and payments of the State are being handled through this application from 2nd April 2018. PAG(A&E), being secondary compiler of accounts, relies on the initial accounts prepared in CFMS by the treasuries. Hence, assurance on the integrity and reliability of transactions processed through and the data generated from the system is essential both for PAG(A&E) and the PAG(Audit), the primary auditor, under the organisation of the CAG.

Over the three years, we had identified that the system had certain deficiencies in functionalities and some deviations from the existing legal requirements, as to the preparation of the accounts. Some of them were instances of double payments, use of Suspense Heads not as per the accounting rules, huge reconciliation issues in the balances of Public Account, no improvement in Expenditure management (large savings/excesses in many grants), adjustment transactions through the backend *etc.*

There was also lack of assurance on the reliability of the accounts as adequate documentation was not visible for a large number of adjustment transactions. It was also noticed that duties of the Directorate of Treasuries and Accounts (DTA) were being carried out through the APCFSS, diluting the role of the DTA in the overall accountability framework for the accounting system of government as there was no formal authority for APCFSS to attend to these functions.

To gain an assurance on the working of CFMS, mainly the three modules under Phase-I, we have reviewed the overall design of the application with reference to the functional specification documents prepared by APCFSS for the modules. Apart from this, we also reviewed the compliance of the system with the State financial rules, accounting and

reporting requirements of CAG, and the IT and non-IT controls for reliability and integrity of the financial transactions and accounting data. Our observations on these issues are discussed in the report.

1.6 Audit Objectives

Information Systems Audit (IS Audit) of CFMS was conducted with a view to examining:

- Whether the system was designed effectively to encompass all the key functions, controls, and reporting requirements of all the stakeholders and whether what was designed was built in and the same was effectively implemented.
- Whether Data storage and retrieving mechanism is effective and ensures that the business data is protected and available as stipulated.

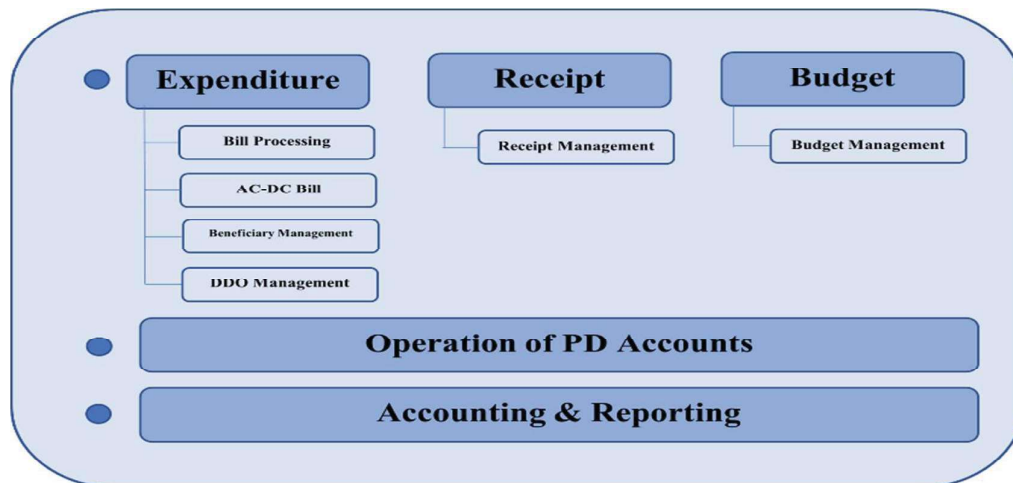
1.7 Scope of Audit & Audit Methodology

During the audit, data analysis of the transactions in the CFMS platform under Phase-I from the date of roll out of the project *i.e.*, from 02 April 2018 to September 2021 had been conducted module wise.

The processes designed in three rolled out modules were analysed against accepted standards for application design, application controls & security and business continuity.

Further key processes in CFMS – Bills processing, Management of AC/DC Bills, PD Accounts, beneficiary management, Accounting & Reporting, DDO Management, Receipt Management, Budget Management – to the extent of implementation were also examined in audit.

The structure of the observations on key aspects is as follows.



The audit methodologies used included review of documentation, check of controls, activity observations, using Computer Assisted Audit Techniques (CAAT) for analysis of large voluminous data, reviewing evidence to validate controls *etc.*

Additionally, the audit team also visited the Finance Department / selected treasuries and few DDOs for collecting information and to gain first-hand experience of CFMS.

1.8 Sources of Audit criteria

- Andhra Pradesh Financial Code, Andhra Pradesh Treasury Code, Andhra Pradesh Accounts Code, Andhra Pradesh Budget Manual, Government Accounting Rules, Receipt & Payment Rules, and other financial rules under legacy system.
- Request for Proposal, including the Functional Specification Documents (FSD)
- Rules / orders communicated by the Government from time to time
- Instructions/guidelines issued by Government of India and the State government about IT systems
- Guidelines of O/o C&AG of India on digital vouchers
- Generally accepted Data integrity and quality standards

1.9 Acknowledgement

Audit acknowledges the cooperation extended by APCFSS in providing server data and arrangement of walkthrough on Modules. The entry conference was held with the Principal Finance Secretary, Secretary Finance and Chief Executive Officer, APCFSS, on 27 October 2021, and the draft report was communicated to the GoAP on 28 March 2022.

Replies were received from the Government on 21 October 2022. The Exit conference was held with the Special Chief Secretary on 24 November 2022. Replies of the Government were examined and incorporated appropriately in the Report.