

EXECUTIVE SUMMARY

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Why we did this Audit?

The Integrated Financial Management System-Kerala (IFMS-K) is a web based financial accounting system developed by National Informatics Centre (NIC) to achieve effective financial management of the State by integrating financial transaction of Government with all stakeholders such as Finance Department, Treasury Department, Administrative and Line Departments, Accountant General (Accounts & Entitlement), Reserve Bank of India (RBI) and Banks.

The project was expected to make budgeting processes more efficient, improve cash flow management, strengthen Management Information Systems, improve accuracy and timeliness in accounts preparation, bring about transparency and efficiency in public delivery systems, better financial and Human Resource management *etc.*

Considering the importance of IFMS-K in rendering data to Government on a real time basis for monitoring and for policy making, CAG took up this Performance Audit covering the activities during 2016-23. Of the ten modules, five modules *viz.*, Budget Management, Receipt Management, Expenditure Management, Accounts and Audit Management and Core Treasury Savings Bank (CoreTSB) were selected for scrutiny. The objectives of this Audit were to ascertain whether (1) project planning, system development and implementation procedures were adequate and effective (2) objective of the system to bring effective financial control over budget allocation, receipt and expenditure management of the State Government was achieved and (3) Information System Controls and Security Controls in place were adequate and effective in asset safeguarding and ensuring data integrity and provide for secure and uninterrupted treasury operations.

What we found?

Due to absence of a Service Level Agreement (SLA), the government could not provide a strong foundation for the implementation of the project. Review meetings chaired by the Additional Chief Secretary (Finance) entrusted with the implementation of the project, became the forum for raising Change Requests based on stakeholder inputs. These review meetings failed to manage the project effectively, as documentation regarding the status of change requests and actions taken remained unavailable, leading to dependence on the System Integrator.

Contrary to the envisaged Software Development Life Cycle model, the modules continued to be developed in a piecemeal manner by NIC extending over a period of eight years. The decisions taken during the IFMS-K review meetings were relied upon as the sole action points for further development.

Audit found that the details in respect of data migration tools employed and log analysis were not available with the department. Signed pre-migration and post-migration reports confirming the completeness of migration, exception reports

(errors/ integrity error reports) generated during data migration and its rectification and confirmation obtained by treasuries were also not available.

Acceptance Test Plan was not prepared and there was no secure test environment segregated from the development and production environments. No third-party professional testing agency was entrusted with the Final Acceptance Testing.

Strong Room Operation Management and Liability Management sub modules which are part of fund management were not developed. Out of the 251 requirements specified in the approved Functional Requirements Specification, 100 requirements were not developed. These requirements were not addressed during the IFMS review meetings also.

Kerala Treasury Code/ Kerala Financial Code and budget manuals were not amended to align with re-engineered business processes. Thus, the government failed to form an action plan on Business Process Re-engineering and amend Codal provisions prior to making systemic changes.

The process of budget preparation is not fully automated in Budget Monitoring System application and the access to it has been limited to the Chief Controlling Officers level. The Budget 2.0 application lacked validation control to restrict the additional authorisation up to the savings in other units of appropriation. The modification subsequently made by AG (A&E) in the expenditure figures were not reflected in Budget 2.0 application.

The system lacked validation control to prevent re-appropriation of excess/ savings from one unit of appropriation to another, or resumption of funds surrendered by the Controlling/ Disbursing officers after the close of the financial year. There is no provision in the system to analyse probable savings within the grant and to calculate supplementary demands for Grant required for regularising the additional authorisation.

Budget Allocation and Monitoring System database showed that the system allowed booking of negative figures in respect of budget 'Allotted Amount' under specified 'Head_ID's. Negative figures in the Budget allotted amount were noticed in 11 instances in respect of 10 DDOs.

The functionality of auto calculation of penal interest for delayed credit of money to government account by agency banks has not been developed. Timely defacement of challans is not done and only 44 *per cent* of challans have been defaced. No time limits are set for processing refund applications and 31 *per cent* of applications are pending disposal.

Expenditure module had deficiencies, such as the absence of sanction orders or proceedings within the system due to which the Treasury had to rely on physical copies of the bills for processing payments. The HR application - SPARK contained inconsistent and invalid data which defeated the objective of the system.

In the Accounts and Audit module, there existed a risk due to unprofessional backend access to the database, which allowed stored procedures to be executed by manually editing 'date' variables. The system is not capable of reconciling GST transactions which resulted in unreconciled amount of GST.

Core Treasury Savings Bank module had deficiencies, such as the non-migration of accounts from TIS to TSB and the lack of system controls for closing inoperative PD accounts. Negative balances were noticed in 3,136 accounts maintained in TSB. Non-capturing of KYC details for accounts, issues in signature verification and absence of maker-checker process for transactions below ₹50,000 increased the likelihood of unintentional errors and possibility of malpractices during the operation of these accounts.

Government failed to carry out third-party independent testing and did not conduct a security audit for any IFMS-K applications. Also, the system permitted multiple logins across various web-based applications. The state budget application was operating on an unlicensed version of DB2. No Database Administrator was available and the Business Continuity/ Disaster Management Plan was also not devised.

What we recommend?

We have made 46 recommendations as given below:

PROJECT PLANNING, DEVELOPMENT AND IMPLEMENTATION

- Government should initiate the process to conduct Business Process Re-engineering and complete it in a timely manner to ensure synergy between existing processes and new processes.
- Government should fix timelines for implementation of various functionalities of the different functionalities in IFMS-K.
- Government should formulate a Requirement Traceability Matrix and a Performance SLA to ensure timely completion of requests raised and assure minimum performance standards.

BUDGET MANAGEMENT

- Government should initiate the automation of the BMS and its integration with the Budget application in a timely manner.
- Government may augment the budget module to accurately identify savings within grants and develop a system to monitor and track any additional authorisations to ensure timely regularisation of expenditure.
- Government should initiate steps to automate budget module to continuously track and update figures in the heads of accounts while keeping a trail of the changes made. Figures booked by the AG (A&E) need to be captured in the budget module for improving efficiency and accuracy in the budgeting process.

- Government should establish a time frame for developing the functionality for additional fund request in the BAMS at the DDO/ SCO level.
- Government should conduct a review of all reports generated by the BAMS to ensure that they align with requirements and accurately reflect financial data.
- Government should fix a time frame for opening the new sub head under the Public Works Deposit head for improved transparency and precise tracking of funds.

RECEIPT MANAGEMENT

- Government should develop a functionality to periodically secure account statements from banks *via* the e-Treasury system to enable system based cross verification, auto detection of transaction errors and synchronised settlement. Government should recover the amount lying in the pooling accounts from the banks and responsibility may be fixed for not obtaining monthly statements and account statements.
- Government should develop a functionality in IFMS-K to auto calculate and claim interest and liquidated damages from banks for delayed credit of money to Government account.
- Government should modify the application to ensure that every challan defaced is stamped with unique defacement number and the total defaced amount do not exceed the challan amount.
- Application's self-sufficiency may be ensured by including comprehensive reporting on refund requests to identify lapses and take corrective actions. GRN needs to be included in receipts generated by integrated departments.
- Government should fix a time frame for refund procedures on sale of stamps to be made online.
- Government should implement a functionality in IFMS-K to provide partial refund in the Treasury so that the concerned departments can draw bills only for the sanctioned amount.
- Government should develop a functionality in IFMS-K to map the DDO codes while accepting the challans through the CREDIT.

EXPENDITURE MANAGEMENT

- Government should implement a validation system to ensure completeness of data and documents before submission, reducing errors and improving process efficiency.
- Government should upgrade the CoreTIS application to incorporate facilities to allow the Treasury Officer to monitor pending bills at the Accountant level, access detailed reports on bill status and required actions, and review Accountant objections to ensure accountability and prevent delays.

- Government should fix a time frame for integration of SPARK with treasury systems for efficient DDO-DSC approval.
- Government should fix a time frame for software modification to ensure uploading of sanction order for passing bills.
- Government should strengthen the system to prevent the issuance of advance bills in violation of the guidelines and implement automatic interest charges for delayed settlement of advances.
- The system should be updated to ensure that bills are not routed through BDS when the original debit head pertains to a deposit head of account.
- A separate weekly report of unsettled bills may be generated with detailed bill specifications, DDO information, and an age analysis to prioritise overdue cases.
- Government should implement validation checks to ensure data consistency and accuracy by enforcing unique identifiers (*e.g.*, PEN and GPF numbers) and validating mandatory fields like PAN.
- Government should implement validation check to ensure that e-TSB accounts are created only once per unique PEN.
- Government should fix a time frame for integration of SPARK with software of KPSC for recording details of departmental exams.
- Government should fix a time frame for software modification to restrict the LWA period to five years.
- Government should implement a functionality in SPARK to mark end of service event in employee data and to process further payments to ex-employees only after this is specifically permitted by the DDO in the system.
- Government should fix a time frame for updation of the EMLI application to capture additional information.

ACCOUNTS AND AUDIT MANAGEMENT

- Government should enhance the IFMS-K system to enable automatic reconciliation of scrolls from the RBI and GSTN, facilitating the generation of a Memorandum of Error.

CORE TREASURY SAVINGS BANK

- Government should take necessary action to reconcile and migrate data to TSB in a time-bound manner.
- Government should initiate action to mandatorily update the KYC details of customers in TSB system.
- Government should update the system by making it mandatory to capture the

signature of all customers in the database and ensure that cheques are passed only after verification against signature captured.

- Government should initiate action to enable maker-checker process for transactions below ₹50,000 in TSB system to prevent unauthorised or fraudulent transactions.
- Government should implement measures to prevent negative balances in TSB accounts in order to curb fraudulent transactions and proper testing needs to be conducted to ensure the same.
- Government should initiate action to specifically accommodate all the operations of PD accounts in IFMS-K.
- Government should update the TSB module, so that on resumption the amounts are credited to the concerned heads of account from where the expenditure was initially incurred.

INFORMATION SYSTEM SECURITY CONTROLS

- Government should limit user sessions to single login per account and a single account from a computer at a time to enhance security.
- Government should fix a timeline for completing the data migration and ensure supported Database Management Systems are used.
- Government should fix a time frame to notify IFMS-K as a Critical Information Infrastructure.
- Government should fix a time frame to implement a Data Retention Policy.
- Government should fix a time frame to establish a far DR and also for settling the claim of NIC.
- Government should fix a time frame for Disaster Recovery Plan.
- Periodic DR drills may be scheduled, conducted and recorded and post-drill analysis may be undertaken to review the lessons learned.
- A ticket based online issue reporting mechanism should be designed for entire suite of applications in IFMS-K, categorising issues based on nature and urgency and fixing timeline for resolution.
- Government may expedite follow-ups with the firm and promptly recover the amounts due by enforcing contractual obligations.

Government's response to audit recommendations

Government, while responding to the Audit observations, assured necessary corrective action wherever required. Audit acknowledges and appreciates the corrective action taken/ proposed by the Government to bring required controls and facilities in IFMS-K to address issues pointed out in this report.