

Overview

This volume of Audit Report represents IT Audit of software modules in use in different areas of activities in eight Public Sector Undertakings under five Ministries.

MINISTRY OF COAL

Northern Coalfields Limited (NCL)

❖ **Integrated Business Solution (IBS)**

- Northern Coalfields Limited, a subsidiary of Coal India Limited, is engaged in extraction and sale of coal. It operates nine open cast/mining Projects with deployment of high value Heavy Earth Moving Machinery (HEMM), one Central Workshop (CWS) and one Central Store. Integrated Business Solution (IBS), an ERP package containing five Modules, was implemented by CMC on 31 March 2005. The system lacked integration among different Modules and validation and application controls were inadequate, incorrect mapping of business rules led to items not being identified as non moving stores. Lack of coordination between various units resulted in unnecessary purchases in spite of holding stock of same items in other units.

MINISTRY OF COMMUNICATION

ITI Limited

❖ **Material management and inventory accounting (MMIA), Integrated material management System (IMMS) and Baan System**

- There was absence of an IT policy and strategy which led to overlapping in development of software and in areas of operations as well as underutilisation of IT resources.
- The Company continued its dependence on MMIA which had various deficiencies. Major activities of the Company were not carried out through IMMS and Baan software making the investment of Rs.82.98 lakh on development of Baan and IMMS software unfruitful.

MINISTRY OF FINANCE

National Insurance Company Limited, New India Assurance Company Limited and United India Insurance Company Limited

❖ IT Control in GENISYS

National Insurance Company Limited (NIC), New India Assurance Company Limited (NIAC) and United India Insurance Company Limited (UIIC) implemented GENISYS, an application software developed by CMC limited, in their operating offices throughout the country for processing business of underwriting of policies, claim settlement, preparation of financial statements and generation of reports. The Genisys software was reviewed in the operating offices of these companies in Southern Region with reference to general IT controls and application controls. The major findings were as below:

- Weak logical access controls posed a security threat and a risk of misuse of facilities. Lack of proper input controls and inadequate process controls resulted in violation of regulations and instructions of statutory authorities.
- Absence of change management controls resulted in under recovery of the statutory levies from the policyholders. Belated updation of the software led to excess recovery due to lack of knowledge of the notification date of revision of the rate of service tax.
- The departments in these companies that handled third party claims used a programme in Microsoft Access and the required data was later entered manually in Genisys. Non-integration of database with other service departments and manual intervention resulted in inaccurate basic estimates of provisions to be made in MACT cases due to non-provision of incidental expenditure.

DEPARTMENT OF HEAVY INDUSTRIES

Braithwaite and Company Limited

Investment of Rs.1.51 crore was made by the Company for procurement and installation of an ERP system with the objective of increasing efficiency in various financial matters and marketing a tailor-made package in the wagon industry. The process of computerisation could not be implemented and the investments did not yield any benefit.

MINISTRY OF PETROLEUM AND NATURAL GAS

Hindustan Petroleum Corporation Limited

❖ Inventory Management System in Enterprise Resource Planning Environment

- Hindustan Petroleum Corporation Limited procured JD Edwards One World Xe (JD Edwards) software with licenses for all modules viz. sales and distribution, manufacturing, procurement and project, finance and human resources in April 2000 for Enterprise Resource Planning (ERP) with the objectives, *inter alia*, of adopting industry best practices; providing on-line, timely and accurate information for improved decision making; improving integration across functions and processes with reduced data cycles and improving external reconciliation; and working capital management - inventory, credit control and cash flows. The system started generating data from April 2003.
- Study and analysis of the Inventory Management module of the system in audit revealed that there was delay in formulating business continuity plan, setting up of disaster recovery site and deployment of the equipment purchased for the purpose which could cause serious disruption to the business. The system had design deficiencies such as lack of referential integrity, customization, input controls and validation checks leading to presentation of inaccurate status of the transactions. Over-riding input controls resulted in supplies to the customers beyond the credit limit. Internal control mechanism was also not effective enough to ensure the completeness of data leading to generation of unreliable information. The Company was not utilizing the features available in the system for valuation of stock and generation of MIS reports leading to under-utilisation of the system.

Oil and Natural Gas Commission

❖ IT Audit of Material Management

- In October 2003, Oil and Natural Gas Corporation Limited implemented a generic Enterprise Resource Planning (ERP) package, the SAP - mySAP Financials and Logistics under project Information Consolidation for Efficiency (ICE). All ten modules of ICE were utilized along with mySAP Oil & Gas Upstream Solutions consisting of joint venture accounting, production sharing agreement and offshore logistic management. The existing data in the Integrated Materials Management System was migrated into the ERP System. ICE went live across the company in phases from October 2003 to January 2005.

Performance of material management module in the ERP System was reviewed in audit. It was observed that inadequacy of input controls resulted in wrong valuation of material and consequently in wrong material accounting, lack of data integrity and incorrect MIS. Stock receipts and issues were not being captured accurately and timely due to deficient internal control mechanism resulting in wrong material accounting. Inherent design defects resulted in generation of incorrect reports. Legacy data was loaded into the ERP System without

adequate data cleaning resulting in incomplete and incorrect data. Even after implementation of the ERP, checks for material requirement planning were being carried out manually.