

Corporation was its Agent/facilitator for supervision only. Although FCI being a principal was required to support all legitimate actions of its Agent under the doctrine of vicarious liabilities, it did not come forward to endorse the isolated inadvertent action of the Corporation in finalising the negotiated rate of 660 *per cent* ASOR and thus driven Corporation to face the consequences which led to payment of difference of handling and transportation rate to the Contractor to the tune of Rs.72.87 lakh. The Management also stated that it had filed (2005) a writ appeal against FCI and the case is yet to come up for hearing. Management's reply confirms the audit observation.

Thus failure of the Corporation to conclude agreement considering the nearest FCI godown Mancherial instead of SWC godown at Pedappalli resulted in loss of Rs.72.87 lakh. No action has been initiated against officials responsible for the lapse.

The matter was reported to the Government in July 2007; their reply is awaited.

Andhra Pradesh State Financial Corporation

3.23 Information Technology Activities

Introduction

3.23.1 Andhra Pradesh State Financial Corporation (Corporation) was established in 1956 with the main objective of extending financial assistance to Tiny, Small Scale & Medium Scale sectors and service enterprises, in the form of term loans, working capital, equity participation etc for setting up industrial units.

IT activities in Corporation commenced in the year 1987 with the in-house development of application software in COBOL capable of capturing and batch processing of important data and generation of reports, centrally, for the end user. In the year 1995, the in-house team under Computer Services Department (CSD) developed a decentralised application package in FOXPRO, enabling branches to independently handle the accounting activities including processing and generation of reports. A pay bill package in FOXPRO was also developed and is being operated in Head office and all the 25 branches

The process of online computerisation in Corporation commenced in the year 1998 with the formation of a "Total online computerisation committee". The objectives of implementation of on-line computerisation were, inter alia, networking of all the branches, easy flow of information, data integrity, facility of easy monitoring of various operations like sanctions, disbursements and recoveries at each branch office, business analysis and quick decision making. Audit of IT activities in the Corporation with particular reference to 'Total online computerisation project revealed the following.

Improper selection of the vendor

3.23.2 The Corporation initially envisaged the on-line computerisation project based on a small branch centric database system on workgroup model with file transfers and batch updates to HO. The entire project was divided into three Phases A, B and C for expeditious implementation.

It was observed in audit that the Corporation had identified eleven consultants who had experience in computerisation of banks and financial institutions. Quotations were received (December 1998) from two consultants short-listed from the identified consultants. The cost quoted by these consultants was Rs.74.5 lakh (CMC) and Rs.41.5 lakh (TCS). As per the consultants, the work of development of software would be completed in 13 months.

In February 1999, Kensoft Infotech Ltd, (Kensoft) Bombay, who were not among the above eleven, were invited to present their strengths in developing software for Corporation. Subsequently, in March 1999, Kensoft quoted Rs.42.00 lakh for the work. Though the quotation of Kensoft was not received in the normal course and was also not the lowest, the contract was awarded to them, primarily because of the assurance made by the vendor that

- The project would be completed in eight months i.e., by December 1999 as against 13 months quoted by the other two
- Both hardware and software for information kiosk, website and video conferencing worth Rs.5 lakh would be provided free of cost

It was observed that contrary to the above assurance, the application software, which was to be completed by December 1999, was not completed and implemented as envisaged. Further, the cost of Rupees five lakh for information kiosk and video conferencing equipment was included in the quotation/total cost of the purchase order thus defeating both the justifications of awarding the contract to the vendor.

Enhancement of scope of the project with out feasibility study

3.23.3 Even before the project was implemented at the branches and based on the appreciation and encouragement received from the Chief Minister (November 2002) and as further development progressed, the Corporation envisaged that a revised strategy be implemented to evolve a centralised enterprise system. The scope of the project was diversified and the cost was revised from Rs.42 lakh to Rs.67 lakh. The justification for increase in the cost was stated to be increase in the number of programmes units under all the modules, which went up from initially envisaged 66 to 325. A revised agreement was entered into with the same vendor (December 2002) with the target date of completion as October 2003.

Audit observed that:

- The results of a feasibility study for development and possibility of implementation of the revised strategy/application software were not on record.
- The increase in the number of programme units in the Accounts module - the only module made operational (in April 2007) - was the

least. Other modules, wherein the increase in number of programme units was more, are yet to be implemented (September 2007).

- The large increase in the scope of work also point out that no estimation was done beforehand.

Non-achievement of the Objectives of on-line computerisation

3.23.4 Audit observed that though project was split into three phases even Phase A was not implemented completely as planned; in spite of eight years of planning and incurring of expenditure of Rs.5.81 crore (Rs.35 lakh towards development + {4.29 crore on Hardware and other Capital costs and Rs.1.17 crore towards Revenue Expenditure} up to 2003-04).

Though the TOC was constituted to oversee the online computerisation project, they were not effective in that they could not ensure the implementation of the project as originally envisaged. It was also observed that the teams constituted with specific tasks could not ensure implementation as per the revised schedule.

Absence of Corporate Policies on IT

3.23.5 Though the IT activities in the Corporation commenced in the year 1987, there were no formulated and documented IT Policies in place. Audit observed that the corporation does not have a documented Business continuity and Disaster recovery plan, IT security policy, password policy etc.

Incomplete Data porting

3.23.6 Audit observed that the data porting from the legacy FOXPRO package was not complete even to date and there were blanks in crucial information like transaction branch, sanction branch, consortium details, contact telephone number, contact person, factory location, borrowers category, loan purpose, required amount, sanctioned amount, disbursed amount, rate sanctioned, rate effect, period of loan (repayment), collateral security, total capital/Initial capital.

Inadequate validations and inconsistencies in data

3.23.7 Analysis of data revealed the following inconsistencies and inadequate validations.

- In 29 cases, the total disbursement of loan amount was more than required loan.
- Though loan would not be disbursed before appraisal, the data base indicated that in all the 18545 cases where loans were disbursed, appraisal was not completed.
- The data indicated that in 57 cases (between the period January 2006 and June 2007), the loan was sanctioned even before it was sought by the loanee i.e., the date of sanction of loan preceded the date of receipt of application from the loanee.
- Loan was sanctioned without any interest thereon in 195 cases relating to the year 2007.

- Though the maximum period of loan is eight years, in 839 cases the repayment period was indicated as more than eight years ranging between 9 and 98 years.
- Though loans are disbursed against a certain percentage of Collateral Security, in 17903 cases, it was not recorded at all.
- As per norms, loans are to be normally disbursed within seven days from the date of receipt of application. However, in 909 cases the process time (delays) was found to be abnormal ranging between 31 to 5397 days (time between date of receipt and date of sanction).
- In 1243 cases relating to general vouchers, the cheques were recorded as returned (dishonoured). However, in all the above cases the cheques were indicated as 'cleared', which is not possible.
- Further, out of the above 1243 cases, in 42 cases, it was indicated that appropriation to respective loan accounts was also done.
- To ensure security and avoid misuse, the user entering the voucher details should be different from the one authorising the transaction.

However, it was noticed that in respect of 85,762 the user entering the details and the user authorising the transaction were the same. Out of the above, amounts paid in 26,482 cases was appropriated to their loan accounts.

The matter was referred to the Government/Management in October 2007; their reply is awaited.

Conclusion

Though the corporation commenced automation in 1987, they have not yet formulated IT Plan/Strategy. Business Continuity and Disaster Recovery Plans are yet to be documented. Though a TOC committee was constituted to oversee the online computerisation project in 1998 and special teams for User Acceptance Testing in 2002 for expediting the online computerisation project, it could not implement the project. The selection of vendor was not as per procedures. The project was taken up without a proper feasibility study, cost benefit analysis and identifying the requirement of application software, commensurate with activities and size of the corporation. In the application software so far developed, there were inconsistencies in data captured. No documented plan exists on the target date by which the integrated package would be implemented. In spite of working on the project for eight years and spending Rs.5.81 crore, the Corporation could not achieve the desired benefits of implementing an IT system.