

~~The Audit scrutiny revealed the following:~~

- ~~• Representatives of six industries had specifically agreed (April 2004), in principle, for payment of interest free advance to the Company and none of the industries disputed the agreement subsequently. This fact was not brought to the notice of the Board while submitting proposal to pay interest on the said advances.~~
- ~~• The CMD of the Company initially ordered (August 2004) for obtaining minutes of the meeting before signing the agreement. However, the agreements with two parties were subsequently signed (November 2004 and March 2005) without the minutes.~~

~~Thus, the decision of the Company to go ahead with interest bearing advance despite the fact that industries agreed to extend interest free advance lacked justification. The Company had already incurred avoidable expenditure of Rs.29 lakh (up to June 2005) towards interest on the advances received. The annual interest liability on deposit already received worked out to Rs.90 lakh. As it would be difficult to mobilise interest free advance, annual interest liability of Rs.4.50 crore may have to be borne when entire deposit of Rs.75 crore was mobilised.~~

~~The above matter was reported to the Management (March 2005) and Government (April 2005); their replies have not been received (October 2005).~~

### **3.5 Implementation of Information Technology System**

#### ***Introduction***

**3.5.1** Grid Corporation of Orissa Limited (GRIDCO) was formed on 1 April 1996. Implementation of IT applications in the areas of Finance, Human Resources Department, Inventory, Payroll, BST billing, etc., commenced from September 1997, to provide right information at the right time to the management for decision making. Though the IT functions are looked after in IT Department, the functional directors of the Company decide the priority areas for implementing Information Systems at different levels. The IT Department is headed by a Senior General Manager, who is assisted by two Managers, one Deputy Manager, three Assistant Managers, four Junior Managers and three non-IT officers.

Audit analysed the system already developed in the areas of inventory control, financial control, human resources control, etc. to examine the effectiveness vis-à-vis actual requirement of the application and the change management controls. The analysis of data furnished by the management with respect to

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\* Jindal Stainless Limited and Rohit Ferro Tech Limited.

Corporate Payroll Information System (CPIS) and Human Resource (HR) Information System was made using IDEA\* software.

### ***Procurement and Maintenance***

#### ***Procurement***

**3.5.2** The Company did not have an IT procurement policy. No needs analysis for procurement of hardware and software was undertaken. A few instances are as below:

- The Purchase Committee of GRIDCO decided (August 2002) to procure hardware and software items on Director General of Supply and Disposal (DGS&D) rate contract basis from HCL Info systems. Scrutiny in audit revealed that DGS&D contract with HCL expired (13 September 2002) at the time of placing order with HCL (16 September 2002). The scrutiny of new rate contract entered with HCL by DGS&D (9 January 2003) revealed that rate of hardware and software was lower than the earlier rate contract. Audit observed that due to delay in placing purchase order the price reduction clause in the rate contract became inoperative and the Company could not avail of the reduction in market price to the extent of Rs.2.19 lakh.

The Management stated (September 2004) that the purchase order was signed within the validity period of the rate contract (13 September 2002), but it was actually issued after the validity period was over which was beyond the control of IT Department. The reply is not tenable in view of the fact that the DGS&D rate contract valid till 13 September 2002 contained the provision of passing on future reduction in prices to the purchaser, but as the order was dated 16 September 2002, this clause became inoperative as the DGS&D rate contract lapsed on 13 September 2002.

- The Company procured seven hardware items valued Rs.8 lakh on limited tender basis (February, 2003). Scrutiny in audit revealed that out of seven items procured, three items were available at DGS&D contract at a lower price. Thus, due to non-procurement at DGS&D rate the Company incurred loss of Rs.1.20 lakh.

Management stated (September 2004) that purchase order was placed (February 2003) much before the Company could get a copy of DGS&D rate contract. The reply is not tenable as DGS&D rate contract was issued in January 2003. Management also stated that the server configuration available in DGS&D rate contract did not provide requisite connectivity, ports and security provisions. The reply of the management is not acceptable in view of the fact that all these server system configurations were available in the DGS&D rate contract.

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\* Interactive Data Extraction and Analysis, software developed by CASEWARE IDEA INC. as a computer assisted auditing tool.

### ***Maintenance***

**3.5.3** The Company had been re-entering into Annual Maintenance Contract (AMC) on the same terms and conditions with the same firm continuously for the last four years without inviting tenders. In order to get a competitive price and reduce the number of parties, the Purchase Committee decided (January 2003) to rationalise the AMC with effect from July 2003. The actual agreements, however, were entered into only in August and October 2003. The delay in implementation of decision of the Committee had resulted in avoidable payment of Rs.1.26 lakh as the new AMC charges were lower than the previous contract.

Management stated (September 2004) that as the officer in charge proceeded on leave, the tendering process was delayed. The reply is not acceptable in view of the fact that the Management should have tendered in time to safeguard the interest of the Company.

### ***System Audit***

**3.5.4** The Company had developed five application software in-house in different areas of operation namely Stores Accounting, Payroll, GRIDCO Financial, HR Database and Cash Management. Price Waterhouse Coopers (PWC) developed Energy Billing Software. The deficiencies in some of the application software are discussed below:

#### ***Stores Accounting and Valuation Information system.***

**3.5.5** Software for valuation of closing stock in respect of Extra High Tension (EHT) materials for construction, stores and maintenance wing was developed. The software has been in operation since 1998-99. Each wing has been divided into divisions, which were further divided into sub-divisions. The end user of the system is basically the finance department as software has been mainly used to find out the value of closing stock of stores at the end of the year. The valuation of stores has been done on the basis of weighted average (WA) rate method.

A review of general controls and application level risks of the software on the basis of test check of stores price Ledger in respect of six work/site/project of construction and maintenance wing for the year 2002-03 revealed the followings:

- Though provision for separation of scrap/obsolete stores has been included in the software, separate accounting of scrap/obsolete was not being done. As observed, in case of L705 EHT (M), Burla section, scrap tower material was valued at Rs.1.14 lakh and taken into closing stock as on 31 March 2002. Similarly, empty barrels, old/used transformer oil, etc., those were scrap materials, were also taken into account as standard stores.
- Non-inventory items like items in the nature of fixed assets, furniture and fixtures were included in the stores. Since the valuation of stores

was done on the basis of WA method, these items were also valued subject to valuation as per WA method, which was contrary to accepted accounting principles. This indicates the software was not designed considering the accepted accounting principles. As financial accounts were prepared on the basis of price stores ledger (prepared as per the software), the above inclusions of non-inventory items resulted in understatement of fixed assets and overstatement of stores and spares by Rs.80.88 lakh. Depreciation was understated with corresponding overstatement of profit for the year 2002-03 by Rs.16.12 lakh\*.

- The software was developed as web enabled so that all units can access to the server available in main computer center. Accordingly, all units are provided with computers and modems. It was, however, found that the software is yet to be used in field units and the units networked with the central server at headquarter.
- In case of L705 SEC. EHT (M) BURLA, the opening balance of 2.875 KM of ACSR Panther Cable as on 1 April 2001 was valued at Rs.8.63 lakh having unit rate of Rs.3 lakh. Subsequently, during September 2001, 1 KM of cable was issued whereas 0.1 KM was shown as issued in computerized store price ledger. This resulted in undercharging of repair and maintenance by Rs.2.70 lakh and overstatement of closing balance of stores and spares as well as profit for the year 2001-02 by Rs.2.70 lakh.

Thus, the stores accounting and valuation information system was completely input dependant for the accuracy of outputs. However, validation controls were not present in the application to automatically detect input errors and impart reliability and integrity to the system.

***Improper validation control in the Human Resources software***

**3.5.6** To ensure better Human Resource (HR) planning and development, the Company had developed a HR information system in October 2001. Even after a lapse of four years, the integrity and reliability of the software is questionable. Audit observed the following:

- As per rule, the retirement age of employees in the category\*\* of A01, A02, T01 and T02 grade is 60 years and for others it is 58 years. Scrutiny of database revealed that status of 28 employees in A01, 6 employees in A02, 39 employees in T01 and 21 employees in T02, who had already retired as on 1 September 2004, was indicated as INSERVICE. Similarly, in case of other employees whose retirement age was 58 years, and who had already retired as on 1 September 2004, the status of 203 employees has been shown as INSERVICE. Proper

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\* Year of purchase, receipt and issue over the year has not been considered due to non-availability of specific informations.

\*\* A01-Attendant, Peon, Watchman, etc. A02- Daftary, Diarist, Record Supplier, Zamadar, etc. A03-Helper. A04- Carpenter, Khansama, Junior Artisan, Mason, etc.

validation control can ensure exclusion of retired employees from the current database.

The above matters were reported (August 2005) to Management/Government; their replies have not been received (October 2005).

### **Orissa Hydro Power Corporation Limited**

#### **3.6 Loss of Revenue due to defective meter**

##### **Company's failure in making proper metering arrangements as per PPA led to loss of revenue of Rs.2.38 crore due to under-billing of energy sold.**

The Company executed (August 1998) a Power Purchase Agreement (PPA) with GRIDCO for transmitting the energy generated from its Upper Indravati Hydro Electric Project (UIHEP). As per Clause 8 of the PPA, two sets of recording type electronic tri-vector meters were to be installed by the Company to measure the energy generated and the energy delivered. One set of such meters was to be designated as Main Meter and the other set as Check Meter. Each set shall consist of export and import meters. These meters shall be static meters of class of accuracy of 0.2 per cent. The first Unit of UIHEP was commissioned in September 1999.

Audit scrutiny revealed that the reading of Check Meter was more than that of Main Meter. The Main Meter, therefore, was retested (October 1999) by State Testing Laboratory (STL). This showed an error of (+) 0.41 per cent which was more than the specification (i.e. 0.2 per cent) of PPA. GRIDCO did not accept (May 2000) the request of the Company to consider the billing as per the meter installed at the delivery point (PGCIL) by treating it the Check Meter on the ground that the same was not installed in the Power House premises. The billing of sale of power to GRIDCO was, therefore, being done as per readings of Main Meter at power house end despite its lower reading and erroneous status.

The Company installed a new Main Meter in March 2001 and a Check Meter in September 2001 at Power Station in Indravati PGCIL 400 kV feeder. The joint reading of the Check Meter, however, was not taken for comparison with the reading of Main Meter. As this Check Meter showed erroneous reading, GRIDCO requested (July 2002) the Company to install a Check Meter at the Power Station to avoid confusion in measurement of energy.

It was further observed (May 2004) in Audit that meetings were held between GRIDCO and the Company on reconciliation of energy at UIHEP on different dates in January and October 2001 and in May and July 2002. It was finally decided (April 2003) that the meter readings of the old Main Meter should be considered for billing purpose from September 1999 to February 2001 without