FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

THIRTY SECOND REPORT

(Presented on 18th May, 2017)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2017

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

THIRTY SECOND REPORT

On

Malabar Cements Limited

(Based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2008,2009,2010 and 2014)

925/2017.

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the Report on its behalf, present this Thirty Second Report on Malabar Cements Limited, based on the Reports of the Comptroller and Auditor General of India for the year ended 31 March, 2008, 2009, 2010 and 2014 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Report of the Comptroller and Auditor General of India were laid on the Table of the House on 23-6-2009, 25-3-2010, 28-6-2011 and 23-3-2015 respectively. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2014-2016 at its meeting held on 6-1-2016.

This Report was considered and approved by the Committee (2016-2019) at its meeting held on 26-4-2017.

The Committee places on record its appreciation for the assistance rendered by the Accountant General (Audit), Kerala in the examination of the Audit Paragraphs included in this Report.

The Committee wishes to thank the officials of the Industries Department of the Government Secretariat and Malabar Cements Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government-Industries and Finance Departments and the officials of the Malabar Cements Limited who appeared for evidence and assisted the Committee by placing their views before it

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
26th April, 2017.

REPORT

ON

MALABAR CEMENTS LIMITED

AUDIT PARAGRAPH 3.2 (2013-14)

Avoidable loss

Loss due to delay in payment of deferred KVAT—₹ 2.84 crore

Malabar Cements Limited (Company) is a manufacturer of cement (Portland Pozzolana Cement) using Fly ash as raw material. It has two units at Walayar and Cherthala. Government of Kerala exempted (August 2004) industrial units owned by PSUs manufacturing cement using fly ash as raw material from payment of Kerala General Sales Tax (KGST) for a period of nine years from the date of commencement of commercial production or until full utilisation of exemption of 500 per cent of the fixed capital investment in the unit whichever was earlier. Accordingly, the Company being a Public Sector Undertaking (PSU), got exemption from payment of sales tax with effect from August 2004.

The exemption notification issued under KGST Act became inoperative w.e.f. 1-4-2005 consequent to the introduction of the Kerala Value Added Tax (KVAT) Act, 2003. However, section 32(1) of the KVAT Act empowered the Government to issue notification permitting industrial units which were enjoying tax exemption under KGST Act. Accordingly, Government issued (October 2007) notification permitting the Company to defer the unavailed portion of sales tax exemption sanctioned under KGST Act for a period up to 6th August, 2010. The amount of tax deferred was ₹20.08 crore. The KVAT Act stipulated for remittance of the tax so deferred on the date of the expiry of the period of such deferment. The Company, however, instead of remitting the amount on due date of 6th August, 2010, requested (3rd August, 2010) the Government to grant further deferment for a period of two years stating that the Board of Directors (BoD) had approved a capital expenditure budget of ₹80 crore for Plant modernisation/ Upgradation which was to be implemented in a time-bound manner. Government rejected (February 2011) the request stating that on

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6th August, 2010, the Company was liable to pay tax. The Company remitted the amount only on 2nd August, 2011 after a delay of almost one year. As a result, the Assistant Commissioner (Assessment) Special Circle, Palakkad levied (February 2013) interest from 7th August, 2010 as per KVAT Act 2003. The Company remitted the interest amount of ₹ 2.84 crore on 9th March, 2013.

Audit scrutiny revealed that as on 6th August, 2010, i.e. the due date for remitting the amount of tax deferred, the Company had funds aggregating to ₹ 75.94 crore in short/long term deposits with different banks/Government treasury. Thus, non remittance of statutory dues by the Company despite having surplus funds, resulted in avoidable payment of interest of ₹ 2.84 crore.

The Government replied (August, 2014) that after providing financial assistance of ₹ 38 crore to six PSUs as per its direction (June ,2010 to July,2010), the balance fund available with the Company was only sufficient for its modenisation projects. The reply was not acceptable as the Company was bound to remit statutory dues on a due date and plan its modernisation projects with the funds available after payment of statutory taxes.

Thus, failure of the Company to remit the deferred tax on due date despite having surplus funds resulted in avoidable payment of interest amounting to ₹ 2.84 crore.

[Audit paragraph 3.2 contained in the Report of the Comptroller & Auditor General of India for the year ended 31st March, 2014]

AUDIT PARAGRAPH 4.7 (2009-10)

Failure of the Company to accept dry fly ash supplied by a contractor led to stoppage of supply, subsequent encashment of bank guarantee and consequent loss of ₹ 14.49 crore.

The Company is engaged in the manufacture and sale of ordinary portland/ portland pozzolana cement (PC/PPC). Dry fly ash (pozzolanic material) is one of the major raw materials in the manufacture of PPC which can be used (15 to 35 *per cent*) in lieu of costlier clinker. In order to ensure regular supply of dry fly ash, the Company entered into (November 2004) a contract with

ARK Wood & Metals (P) Ltd., (ARK) Coimbatore for a period of nine years (November, 2004 to November, 2013). The terms of the contract provided that ARK would supply to the Company an average 600 MTs of dry fly ash daily (15000 MT per month) at ₹ 130 per MT. The base rate of ₹ 130 per MT was subject to annual increase. In addition maintenance cost, electricity charges, water charges and taxes and duties which at that time were nil were reimbursable by the Company. The fly ash was to be supplied from the silo allotted by Tamil Nadu Electricity Board (TNEB) at their Tuticorin Thermal Power Station (TTPS).

As per the provisions of the contract, ARK was to deposit ₹ 5 lakh (Demand Draft/Bank Guarantee) as security deposit against non-performance of the contract/ premature termination of the contract while the Company reserved the right to premature termination of the contract on payment of compensation of ₹ 50 lakh to ARK, to be secured by a Bank Guarantee. Accordingly, the Company furnished (December, 2004) a bank guarantee for ₹ 50 lakh and ARK furnished a bank guarantee for ₹ 5 lakh. The contract, however, did not contain damages clause which could safeguard its financial interest against non-supply of dry fly ash by ARK.

The relationship between the Company and the contractor became strained since August 2006, due to reduction in off take, delay in making payments and withholding of electricity charges (₹ 11.27 lakh) payable as per the terms of contract. The Company also expressed its reservations to ARK for nonfurnishing the split up details of the quantities of dry fly ash lifted by them from TTPS and the electricity required. On the other hand, due to low off take of fly ash by the Company, TNEB reduced (December 2007) the allotment by 50 *per cent*. This caused erratic supply initially and ultimately resulted in non-supply (September, 2008) by ARK. However, ARK encashed (September, 2008) the bank guarantee of ₹ 50 lakh furnished by the Company attributing delay in release of payment, lower off take and non-payment of power charges. The Bank debited (December, 2008) an amount of ₹ 52.45 lakh to the account of the Company (₹ 50 lakh towards bank guarantee plus ₹ 2.45 lakh towards interest). The Company's complaint (February, 2009) before the Banking Ombudsman against the action of the Bank in admitting invocation of bank guarantee by ARK was turned down (March, 2009) by the Ombudsman on finding that the action of the Bank was in order. In the absence of supply of dry fly ash by ARK, the Company was forced to source dry fly ash from other suppliers which was inadequate to meet its requirements resulting in a loss of ₹ 14.13 crore (April, 2007 to May, 2010) due to use of costlier clinker in lieu of fly ash.

We noticed that the Company, failed to accept the quantity offered by the supplier in full since September 2006 and delayed payment to the contractor, which resulted in stoppage of supply by the contractor and subsequent encashment of bank guarantee containing compensation clause favourable to the contractor, resulting in a loss of ₹ 36.18 lakh. Consequent to the stoppage of supply of fly ash, the Company had to source the material from other sources, which was inadequate to meet its requirements and resulted in loss of ₹ 14.13 crore (April, 2007 to May, 2010) due to use of costlier clinker in lieu of dry fly ash. In the absence of provisions in the agreement to recover damages for nonsupply of dry fly ash, chances of recovery of loss from the contractor were also remote.

Management replied (March/June 2010) that the Company was immensely benefited by the regular supply of dry fly ash so that the Company had to agree for a disproportionate amount of bank guarantee towards performance of the contract. The reply does not hold good as the bank guarantee included disproportionate compensation clause proved disadvantageous to the Company and the cost of alternate clinker used in absence of supply of fly ash was high leading to huge loss to the Company. Further the Company could not safeguard its financial interest for non-supply of fly ash by ARK.

The matter was reported to Government (May, 2010); its reply is awaited (October, 2010).

[Audit paragraph 4.7 contained in the Report of the Comptroller & Auditor General of India for the year ended 31st March, 2010]

The notes furnished by Government on Audit Paragraph is given in Appendix II.

AUDIT PARAGRAPH 4.13 (2008-09)

4.13 Avoidable expenditure due to lack of transparency

Changes made in contract conditions after the opening of tender/quotation resulted in lack of transparency in conditions advertised and avoidable extra expenditure of Rs. 16.97 lakh

In response to tenders invited (June 2007) for supply of limestone with moisture content of three to eight *per cent* with pro-rata reduction in quantity for excessive moisture content, Venkateswara Cements Limited (VC) quoted (August 2007), the lowest rate of Rs. 580.25 per M.T. which was reduced (September 2007) to ₹ 570 per M.T (including transportation charges-₹ 389 per M.T. and loading charges--₹ 20 per M.T). Based on the request of VC at the time of negotiation (September 2007), prior to the issue of order (September 2007), the contract was split up (September 2007) into two viz., one for supply of limestone by VC and another for loading and transportation by Raja Transport (RT) and the accepted maximum level of moisture content was increased from three *per cent* to six *per cent*. This resulted in changes in tender conditions after the opening of tender and lack of transparency as all the tenders did not get equal opportunity to quote their lowest rates as it was a composite contract for supply of limestone at Company's factory at Walayar.

The contract was for supply of 360000 M.T. of limestone for two years (September 2007 to September 2009) at 15000 M.T. per month. The Company amended (November 2007) the stipulation for the level of moisture content in limestone from six *per cent* to three *per cent* in the order and if the moisture content exceeded this level, pro-rata reduction in the basic value of material and loading charges only (excluding transportation charges) was to be made. The amendment, however, was not extended to transportation cost, even though, that was a major component (68 *per cent*) of the composite rate of ₹ 570 per M.T. quoted/agreed upon.

VC supplied (November 2007 to October 2008) 61262 M.T. of limestone through RT with moisture content varying between 8.27 to 12.29 *per cent*. While proportionate reduction was made from payment for basic material cost as per amended conditions, no recovery/reduction could be effected from transportation cost in the absence of stipulation/enabling provision in the contract, even though transportation cost accounted for 68 *per cent* of total cost.

The Government in reply stated (July 2009) that tenders were framed with a general understanding of the situation. However, based on offers and situation, suitable changes need to be made in order to ensure continuous supply of essential raw materials. The reply is not acceptable since tender conditions were modified after opening of tender resulting in lack of transparency in tender conditions published in news papers i.e., other tenderers were not given equal opportunity to quote fresh rates.

Thus, the changes made in the conditions of the contract after opening of tender exhibited lack of transparency in working of the Company and the Company bore the avoidable extra expenditure of ₹ 16.97 lakh due to transportation of excess moisture laden limestone.

[Audit paragraph 4.13 contained in the Report of the Comptroller & Auditor General of India for the year ended 31st March, 2009]

The notes furnished by Government on Audit Paragraph is given in Appendix II.

AUDIT PARAGRAPH 2.3.1 to 2.3.44 (2007-08)

Introduction

2.3.1 Malabar Cements Limited (Company) is a cement producing company incorporated by Government of Kerala in 1978 and started production of cement in 1984. The management of the Company is vested with a Board of Directors nominated by the State Government. Managing Director is the Chief Executive. The Company had been using stand alone software with limited integration facilities based on FoxPro till 2006. In December 2006, the Company decided to implement SAP-ERP system to integrate all the departments at an initial cost of ₹ 1.20 crore.

Computerisation

2.3.2 The Company started computerisation of its activities in 1994 with the development of software operating in Local Area Network (LAN) environment to manage the activities of pay roll preparation, stores purchase, sales invoicing and financial management. This was developed in-house in FoxPro and Clipper on Novell Netware Server platform. There was limited integration amongst different modules.

In order to integrate all the activities of various departments of the Company and to take care of the automation needs of all the activities including net enabled transfer of data from remote locations, a SAP-ERP system named as SATVA (Solution for Achieving Transparency and Value Addition) was introduced with effect from 2nd August 2007. The system was got developed using SAP-ERP version 6.0 with Oracle version 10.2.0.2.0 as the relational database and Windows 2003 Enterprise Edition as the operating system for server. The system was accessible from 138 computer nodes in a LAN environment.

SATVA is tuned to support transactions over internet for 100 named users of the Company (SAP Application Professional-20 SAP Application Limited Professional-9, SAP Application Employee Self Service-70 and SAP Application Developer-1). The six modules of the SATVA system in use were:—

FICO—Finance and Costing	MM—Material Management
SD—Sales and Distribution	HR—Human Resoursces
PP—Production Planning	PM—Plant Maintenance

The Project Objective

2.3.3 The objective of the project is evident from the name itself i.e. ' SATVA' (Solution for Achieving Transparency and Value Addition) and from the mission statement i.e.'Towards a transparent, efficient and model enterprise through business process re-engineering'.

Project Cost

2.3.4 The total project expenditure (up to July 2008) was ₹ 115.46 lakh (Hardware ₹ 20 lakh, SAP Software ₹ 44.90 lakh, System Development fee ₹ 50.56 lakh inclusive of taxes) as against an estimated cost of ₹ 120 lakh. Expenditure incurred since August, 2007 on Annual Maintenance Contract (AMC) for the software was to the tune of ₹ 15.27 lakh.

Status of the Project Implementation

2.3.5 Keltron, Thiruvananthapuram who conducted (December, 2006) a system study in the Company recommended SAP-ERP as a suitable platform for implementation of the system. While the Company directly procured (January, 2007) the utility software from SAP India Pvt. Ltd. the implementation of the system was entrusted (January, 2007) to Keltron, Thiruvananthapuram. As per the work order (January 2007), the project period was 30 weeks from the kick off date (2nd February, 2007) and was scheduled to be completed by 1st August, 2007. Though the Work Order was silent on subcontracting, Keltron entrusted the work to Saptha Business Solutions, Bangalore (Saptha) for implementation. The system was rolled out (go live status) on 2nd August, 2007.

The work order accepted by Keltron provided for only one month's support after 'go live status' of the system. Though the system was rolled out by the stipulated date, the system was having a number of bugs/defects on account of improper project management. Keltron could not complete the project and the Company could not depend on the system fully resulting in manual operations and usage of old software in the different divisions of the Company. Since, annual accounts of the Company could not be generated through the system, the Company awarded a separate work order (May, 2008) to QuestAm, Chennai for solving the problems related to server maintenance and FICO module. Presently, the Company is in the process of issuing further work order(s) to QuestAm, Chennai for solving the pending issues in other modules. Moreover, Company had withheld the payment of ₹ 5 lakh to Keltron and discontinued the contract while stating that company is not claiming for the financial and other damages caused on account of Keltron.

Scope of Audit

2.3.6 The scope of audit includes evaluation of System Development Life Cycle (SDLC) and substantive testing of data to evaluate data integrity and to assess the performance of the system. The audit was conducted during March-April and August, 2008.

Audit Objectives

2.3.7 The primary audit objective was to review SATVA system to seek assurance that input, processing and output controls were in place which ensures reliability and integrity of data and to evaluate the system processes meant for bringing transparency and efficiency in the functioning of various divisions.

Audit Methodology

2.3.8 IT review of various Modules in SATVA was conducted by adopting the following methodologies:

- Discussion, interview, correspondence and feed-back received from the Company in respect of questionnaire issued by Audit.
- Scrutiny of Business blueprint and Configuration documents supplied by the Agency.

Audit Constraints

2.3.9 The essential documents viz., business process procedure documents for FICO, MM and PM Modules indicating process configuration for SATVA were not received from Keltron and therefore, was not available for examination and analysis to identify the sources of defects. Similarly functional specifications which were the basis of customisation were not available with the Company.

Audit Findings

2.3.10 While appreciating the decision of the Company to implement SAPERP system, with a view to bring in transparency and efficiency in its operations, the audit review brought out the following deficiencies in the implementation of the SAP system.

Absence of long term IT Plan

2.3.11 The Company while deciding to go for an ERP system did not have any documented long term IT Plan. Though the Company decided to switch on to the globally renowned SAP-ERP system, it did not have any defined long term and short term strategies for IT infrastructure with the result that IT system acquired was largely remaining unutilised.

The Management stated (October, 2008) that, the modules implemented were part of a large ERP package having a number of software programs and all the required modules would be implemented before any other PSU in the State. The reply is not tenable since, it is yet to formulate any strategy for utilisation of certain software licenses still remaining idle, identify interfaces for exchange of information between different units/modules and additional hardware required for full automation. No time frame has been indicated for achieving the objectives in full.

Selection of Implementing Agency without assessing technical competence

2.3.12 The Company appointed Keltron as Implementation Agency for the SAP-ERP systems, which conducted a system study in the company earlier. It was based on a single commercial proposal and without inviting tenders. The work order was issued (January, 2007) for a lump sum amount of ₹ 50 lakh. Keltron did neither have any previous experience in implementation of SAP systems nor did they have required expertise. Thus, they sub-contracted the work to Saptha. The factors that weighed high in awarding the work to Keltron was not available in records produced to audit.

The Management stated (October, 2008) that Keltron was selected since it had 25 years of experience in the field of building up electronic infrastructure in the State and the Government had also directed to consider implementation of IT action plans through Government organisations. However audit holds that the criteria for selection should have been expertise and experience in implementation of the specific ERP package which were found lacking in both the contracted agency and the sub contractor.

The deliverables included the following:

- Business Blue Print Document
- Business Procedure Document
- Functional Specification
- Technical Specification
- Source Code

Business blueprint and business procedure documents were delivered only in September 2008 in respect of three Modules, viz., FICO, MM and PM even after go-live status of the project. Such documents in respect of other three modules were also delivered belatedly in May 2008 after go-live status. Other deliverables viz., functional specification, technical specification and source code were given only in June 2008 in respect of all modules.

The following deficiencies in the contracting process led to difficulties in implementation of SATVA:

- Keltron which lacked experience in implementation of SAP entrusted the implementation job to Saptha although there was no sub-contracting clause in the work order. Saptha could not fully meet the customisation requirements of the Company as discussed in succeeding paragraphs.
- The functional heads who were named as Business Process Owners (BPOs) gave certificate of 'successful status' for the system both for 'go-live' and 'post go-live' scenario without user's testing of the modules. This enabled Keltron to declare the system with 'go live status' on 2nd August, 2007 and receive payment up to 90 *per cent* of the total amount despite remaining bugs in programming and fulfilment of all the functional requirements. The system was found to be having bugs/defects in respect of all six modules which hampered the functioning of all the divisions.

- Since no penal clause was incorporated in the work order, the Company could not levy any penalties on the implementing agency (Saptha) for ensuring proper implementation. The work order provided for support by Keltron was only for one month after go live which was not sufficient for an ERP system to stabilise.
- Till May 2008, the Company did not have any support service/consultants to carry out modification in programs to correct the deficiencies in the system or to customise further to take care of change in requirements. The Company continued to depend on manual system and the legacy software.
- The Company hired (May 2008) another agency (QuestAm, Chennai) to solve pending issues in server maintenance and FICO module primarily to finalise the annual accounts without canceling the work order signed by the Company and Keltron.

Absence of User Requirement Specifications Documents

2.3.13 Saptha entrusted the work of preparation of the User Requirement Specifications to the BPOs. As the BPOs were not having commensurate skills in preparing the requirements' specification after business process reengineering and did not shown adequate interest in the development, Saptha proceeded with implementation without the requirement study document which resulted in deficiencies that affected both implementation and performance. The Management also stated (October, 2008) that the implementing agency did not possess the required experience to carry out the requirements in full.

Deficiencies in configuration and programming Material Management Module (MM)

2.3.14 The various purchase requisitions are not being issued online through the 'Customer Relationship Management Software (CRM Express) as CRM Express could not be implemented although envisaged as per the work order. Such requisitions are issued manually in hard copies after taking printouts using the ERP system. The hard copies of the requisitions do not fully mention the item description as only the first few characters are being printed. This is posing a lot of problems to both the vendors as well as requisitioning departments as it is difficult to identify the materials requisitioned in absence of full description especially in respect of similarly grouped items with minor variations in the description of items.

2.3.15 While receiving a material which requires quality checks to be exercised, it needs to be held as 'Restricted Stock' till its quality is ascertained. As there is no provision in the customised solution to enter such materials as 'restricted stock' before quality checks are exercised, such receipts were being recorded in the system under 'Un-restricted Stock' (105 movement type) requiring no quality checks. Because of this process deficiency, certain raw materials (e.g., dry fly ash) were consumed at times without ascertaining the quality parameters. System needs to be modified to cater to materials requiring quality checks.

2.3.16 In the price comparison list reports, previous order prices and sources of procurement of such items etc., are not appearing. Resultantly, decision making is hampered on account of cumbersome user interface and nonavailability of required data in the price comparison list reports.

2.3.17 Since the configuration for UOM (Unit of Material) is limited to 2 decimal places, 'the per unit rate' of materials is shown as zero in some cases after rounding off. For example in service purchase order, if the rate is, say, ₹ 38 per 10000 numbers, the unit price shown would be Re. 0.00 instead of Re. 0.0038. This will have some financial impact in the Material paid account and resultant reconciliation problems.

2.3.18 Analysis of data relating to purchase of materials revealed that same material codes were used for different materials of a similar group. This indicated improper maintenance of master data for materials by way of assigning same code for a group of materials.

2.3.19 While processing a requisition for purchase of a material, the 'approved vendor list' is not displayed in the screen even though the vendor master exists. In the absence of this list, it becomes difficult to identify the vendors for a particular material; which makes the process cumbersome.

2.3.20 The Purchase Orders for raw materials procured from the suppliers contained provisions for quality assessment based on certain parameters. Since the modules in SATVA did not provide for it, the user could not define the grade of the raw material. Accordingly the cost reduction is not done through the system and is done manually at the time of making payments to the suppliers based on a manual report received from the Quality Department.

2.3.21 The Business Rule requires resorting to Emergency Purchases in exceptional circumstances bypassing the normal system of purchasing through competitive bids. This Business Rule for effecting 'Emergency purchases' was not mapped in the ERP system. Absence of such provisions in the module resulted in a situation where there is no distinction between normal and emergency purchases in the database. It was observed that in respect of five purchase documents released on 15th February, 2008 for the purchase of Dry Fly Ash, the per unit rates were ranging from ₹ 80 to ₹ 150 and on a purchase document released on 16th February, 2008, per unit rate of Dry Fly Ash was ₹ 340. It was not possible to identify the emergency and routine purchases out of these transactions.Non-inclusion of this important requirement provides scope for irregularities in procurement of raw materials.

2.3.22 As per the business rules, purchase requisition authorisation is limited by release strategies based on value of items by the officers and their delegated powers. However, these business rules were not mapped in the system, with the result that the release strategies were controlled manually through hard copies of indent signed by persons delegated which includes the functional heads (BPOs).

Human Resource Module (HR)

2.3.23 HR module has provision for capturing various data relating to Personnel Management of the Company. It is observed that the data entries for preparing various HR functions are being done in Microsoft-Excel and then exported to SAP system for processing. Because of this, the input controls of the SAP system are being bypassed by the users of the HR Department.

2.3.24 Time punches for attendance of employees are captured in SAP system, based on the shift timings. If an employee changes his shift duty with another one mutually, the attendance would show absence in the assigned shift of employee who worked. Because of this the attendance is not correctly calculated by SAP. Therefore a manual attendance register and manual uploading of attendance to the system is necessitated which exposes the system to human errors.

2.3.25 Same position numbers were given erroneously to more than one employee in the ERP system because the positions in the program were limited to the then actual strength instead of the sanctioned strength of various divisions. It was noticed that on promotion of an employee to another position, the system promoted all employees having same position number. The defect in the programming logic requires correction.

2.3.26 It was observed that when one employee was transferred from one department to another, conveyance allowance & HRA (House Rent Allowance) get doubled but variable DA (Dearness Allowance) was halved. This is due to error in program resulting in drawal of full HRA and conveyance allowances both at the old department and new department due to creation of more than one record for an employee during the month in which the employee was transferred. Salary bill was being prepared outside the system by using manual calculation because of such instances.

2.3.27 Leave management utilities are not properly working. The extra work done and compensatory off availed needed to be accounted for total extra days worked. The leave balance reports are also not showing correct balances.

2.3.28 The HR module is not generating 'Section-wise employee list in each department' which is an important Management Information System (MIS) report.

2.3.29 In HR Module while generating pay roll, deductions towards canteen coupon and co-operative society loan recoveries are being keyed in manually every month since these transactions are kept outside the system. As these requirements are part of Company's routine functions in HR, these items should also be processed through the system by providing the required hardware and connectivity to the concerned wing so that the manual intervention could be minimised/avoided.

Finance and Costing Module (FICO)

2.3.30 The Company switched over to SAP system in the middle of the financial year. Because of this, part of the accounts' transactional data was lying in the legacy system and the Company was not able to finalise last year's financial accounts (2007-08) till August, 2008. This was because the data from legacy system up to July, 2007 could not be properly interfaced to the SAP system.

2.3.31 The pay results indicating various elements of pay/wage and allowances due for a month to various categories of employees like Mazdoors. contingent, daily wages, etc. are being worked out in Microsoft-Excel and posted to Financial Accounting through export option in SAP. The ERP system was not being used to automatically calculate allowances like Dearness Allowance for different categories of employees on account of program defects.

Production Planning Module (PP)

2.3.32 As per the business requirement in the production module, the system has to arrive at the output rate, stoppage hours and specific power consumption for evaluation purpose on daily basis. This requirement was not included at the time of customisation.

2.3.33 As per the Business Rules the value of various quality parameters of the raw material on an hourly basis need to be assessed for controlling the operation of raw mill kiln and cement mill where proper mixing of different raw materials takes place. In the current scenario, individual page is required to be opened for each material on an hourly basis and the quality of the output assessed. Hence, features for monitoring the data in single view is needed to be done.

2.3.34 The existing program captures the quantitative and qualitative details of the materials like laterite, limestone and sweetener for production of rawmeal. But there is no facility to capture details of other (new) raw material (eg., clay instead of laterite for production of different variety cement, using the same facilities) in weigh feeder output in raw mill and cement mill. Therefore, the program needs to be modified.

Sales and Distribution Module (SD)

2.3.35 Empty bags are supplied free of cost to the consignees to refill loose cement spilled in the wagon due to breakage of bags. The empty bags should not be given to others on any other ground. So while preparing invoice for empty bags, invoice number of the original consignment has also to be included to prevent misuse for which there is no provision in the software.

2.3.36 While attempting to generate sales invoice report, at the time of release of cement bags from the plant, only the quantity (number of cement bags) released so far to a particular customer would appear on the screen, but the value of the stock released would not get displayed. Thus the user would not be able to assess the quantity to be released to the customer based on his balance of advance payment received.

2.3.37 As per the business rules, the Consignee Receipt Certificates (CRC) require to be accounted for invoice-wise so as to regulate payments to the transporter and evaluate the transport efficiency (i.e., to locate delay, if any). The system could not generate an Exception List for CRC not received. Because of this the Despatch Invoices and Consignee Receipt Certificates are not linked before making payments to transporters. This is done manually at present. Therefore system needs modification in the program to ensure that CRC Numbers appear in the invoices too and exception reports are generated automatically for the user.

Plant Maintenance Module (PM)

2.3.38 In Plant Maintenance Module, to estimate the operating cost per hour and for periodic preventive maintenance, the details of equipment running/ working hours need to be captured. There was no provision for entering equipment running/working hours in SATVA, thus resulting in dependence on Manual System.

The Management stated (October 2008) that the problems have been identified and the issue taken up with Keltron. Since Keltron failed to resolve the deficiencies the rectification works were entrusted to QuestAm, Chennai and the rectifications were in progress.

Non-adherence to best practices in inventory control

2.3.39 SAP provides for generation of automatic inventory control level such as minimum quantity, reorder level and maximum level in respect of each material. Though this had been included in the business blueprint, the system does not provide for these control facilities since the management did not fix the desired quantity levels. This important facility available in the system for material control has remained unutilised. Though SAP is designed to make ABC analysis of inventories for ensuring better control over high value stocks, the Management did not intimate the requirement to the implementing agency and as a result customisation for the same was not done. The management stated (October, 2008) that ABC analysis has since been introduced but control levels and automatic indenting was yet to be introduced.

NON-UTILISATION OF SYSTEM FACILITIES/MODULE LICENCES PURCHASED.

Customer Relationship Management software (CRM Express)

2.3.40 This software intends to build up good customer relations by helping the customers to interact with the Company through the system 'online'. This software was procured as a part of SAP package which is not implemented by Keltron and still remains unutilised.

Employees Self Service (ESS)

2.3.41 This enables the employees to interact with the HR Module and they can claim re-imbursements, view and maintain personal data. This module also was not implemented even though its implementation was included in the work order given to Keltron. Seventy licences for this module available in the Company are yet to be used.

Environmental Health and Safety software

2.3.42 The SAP-Environment, Health & Safety (SAP EH&S) application supports environment, health, and safety processes, as well as management of industrial hygiene, safety, and occupational health processes. SAP EH&S would help to ensure compliance with regulations for product safety, hazardous substances, dangerous goods, and waste management. Even though the Company is an ISO certified one and it could utilise the existing application software licences to meet its requirements, the Management did not even deliberate on the viability of implementing this module.

The Management stated (October, 2008) that these utilities would be implemented in the second phase.

Absence of Security and Password Policies

2.3.43 There is no defined and documented security policy to ensure system security and data security. Password is required for ensuring security of the system and integrity of data in a computerised system. An ideal password policy shall specify:

- Periodicity of changing passwords
- Situations in which the password should necessarily be changed, and
- The procedure prescribed for locking/unlocking of user after certain invalid attempt by user.

The Company did not have any defined and documented policy on password and the users were not made aware and communicated the importance of password protection. An analysis of password logs generated by the SAP system confirmed the audit contention.

The Management stated (October, 2008) that directions were given for changing passwords more frequently.

Deficiencies in Training

2.3.44 As per the project proposal submitted before the Board during December 2006, Keltron was to provide training to key users e.g., advanced training to IT team of the Company, basic training to end users, etc. However, on scrutiny of records it was revealed that:

- Only an introductory training for one week (3 hours per day) was given to 26 officers in middle management level during June, 2007.
- No advanced training was given to the core team with a view to familiarise them with the configuration techniques and trouble shooting solutions.
- The trained BPOs (functional heads) were expected to give the required training to the end users. However, records relating to such training were not made available for audit scrutiny. Inadequate training affected the successful implementation of SATVA and led to continuance of manual system.

- The Management insisted for User Manuals only after 9 months of 'go live.' Even after its receipt, these were not circulated to the end users so far.
- Even though the HoDs are likely to change, a well trained group of officers in IT have not been posted to key posts where IT skills are required.

The Management stated (October, 2008) that additional trainings wherever required would be imparted.

[Audit paragraph 2.31 to 2.3.44 contained in the Report of the Comptroller & Auditor General of India for the year ended 31st March 2008]

The notes furnished by Government on Audit Paragraph are given in Appendix II.

1. When the Committee enquired about the audit objection, the witness replied that even though deferred tax amount of ₹ 20.08 crore had to be remitted on 6th August 2010, according to S.32 (1) of the KVAT Act, the Company could not remit the said amount on due date owing to some cash flow problems which was prevailing at that time. Afterwards, on the request of the Company to extend the period, the Company gained profit and hence the Government directed to remit the deferred tax amount together with interest. But the Company was not able to remit the deferred tax amount in time since the Company had already given its profit to other PSUs as per the Government direction. The witness informed that it was not a managerial lapse, but an unlikely decision that led to the audit objection and the Committee pointed out that such a loss could have been avoided if the Company had acted judiciously.

2. To the query of the Committee the witness informed that the Company executed a contract with ARK Wood & Metals (P) Ltd. for a period of nine years in order to ensure the regular supply of dry fly ash which was an essential raw material in the manufacture of Portland Pozzolana Cement. Even though the Company furnished a Bank Guarantee for ₹ 50 lakh and ARK furnished a Bank guarantee for ₹ 5 lakh as security deposit against non-performance of the contract or premature termination of contract according to the provisions in the contract, ARK did not supply fly ash as and when it was required. Moreover, ARK illegally invoked ₹ 50 lakh, which was deposited by the Company as security deposit.

3. To a query of the Committee regarding the encashment of security deposit without closing the contract prematurely, the Managing Director replied that it was because of the laxity from the part of the Manager, Canara Bank. At this juncture the Secretary, Industries Department pointed out that the management was wholly responsible for the loss and pointed out that though the Company could directly purchase the raw materials without any mediator, the Company never took any steps to purchase raw materials directly. The Managing Director clarified that consequent to the stoppage of supply of fly ash, the Company was forced to depend on clinker as raw materials, which was costlier than fly ash. When the Committee enquired about the direct purchase of raw materials, then the witness replied that in 2004, it was allotted to ARK Wood & Metals (P) Ltd. only and hence it was impossible for the Company to purchase the raw materials directly.

4. The Accountant General pointed out that the contract executed between the Company and the ARK was absolutely illegal and the provision incorporated in the contract to pay a compensation of ₹ 50 lakh to ARK in the case of premature termination of contract was against the financial interest of MCL.

5. When the Committee enquired about the officials who had entered into such an invalid agreement, the Managing Director disclosed that Shri S. S. Moni, the then Managing Director was responsible for the same and a case was registered under S.13 (1) of the Prevention of Corruption Act. At this juncture, the Committee enquired whether any action had been taken against him. The Principal Secretary, Industries Department informed that they could only file the case before the Court on the basis of an investigation report. He further added that the agreement itself was void since the transportation was carried out by SRV Transporters, one of the proprietary concern of Shri V. M. Radhakrishnan, but the Company signed the agreement with ARK Wood & Industries (P) Ltd. to compensate ₹ 50 lakh in the case of premature closing of the contract and the conditions mentioned in the agreement were also lopsided. The Committee suggested strict action against the responsible officers and directed to submit a report showing the present status of the Vigilance enquiry.

Conclusion/Recommendations

6. The Committee laments that the Company could have avoided payment of penal interest amounting to ₹ 2.84 crore if it had taken measures to remit the statutory dues by the due date.

7. The Committee recommends stern action against the Company officials responsible for the lopsided contract executed between the Company & ARK Wood & Industries (P) Ltd. for sourcing of flyash from ARK which had resulted in a loss of ₹ 36.18 lakh to the Company. The Committee wants to have a detailed and updated report of the Vigilance enquiry initiated against the officials.

8. The Committee is dissatisfied with the lack of transparency in the tender proceedings for the supply of limestone to the Company. The Committee is distressed to note that the Company suffered an avoidable extra expenditure of ₹ 16.97 lakh due to transportation of excess moisture laden limestone.

9. The Committee observes that the Company was unable to fully explore the benefits of Enterprise Resource Planning (ERP) System which was installed in the Company with a huge expenditure of more than ₹ 1.30 crore. The Committee further notes that the failure of the Company to prepare accurate user requirement specification forced the Company to introduce automation only in limited areas. The Committee recommends that the Company should complete full automation and discontinue all manual processing.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
26th April, 2017.

Appendix I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations
1	6	Industries	The Committee laments that the Company could have avoided payment of penal interest amounting to ₹ 2.84 crore if it had taken measures to remit the statutory dues by the due date.
2	7	Industries	The Committee recommends stern action against the Company officials responsible for the lopsided contract executed between the Company & ARK Wood & Industries (P) Ltd. for sourcing of flyash from ARK which had resulted in a loss of ₹ 36.18 lakh to the Company. The Committee wants to have a detailed and updated report of the Vigilance enquiry initiated against the officials.
3	8	Industries	The Committee is dissatisfied with the lack of transparency in the tender proceedings for the supply of limestone to the Company. The Committee is distressed to note that the Company suffered an avoidable extra expenditure of ₹ 16.97 lakh due to transportation of excess moisture laden limestone.
4	9	Industries	The Committee observes that the Company was unable to fully explore the benefits of Enterprise Resource Planning (ERP) System which was installed in the Company with a huge expenditure of more than ₹ 1.30 crore. The Committee further notes that the failure of the Company to prepare accurate user requirement specification forced the Company to introduce automation only in limited areas. The Committee recommends that the Company should complete full automation and discontinue all manual processing.

925/2017.

APPENDIX II

Notes furnished by Government on the Audit Paragraphs

<table>
<tr><th>Para No.</th><th></th><th>Action Taken Report</th></tr>
<tr><td>4.7</td><td></td><td>
The cost sheet shows a shortfall in cement production attributed due to non-availability of Fly Ash amounting to 121478 MT.
<table>
<tr><th>Period</th><th>Walayar</th><th>CGU</th><th>Total (in MT)</th></tr>
<tr><td>2007-08</td><td>32140</td><td>9261</td><td>41401</td></tr>
<tr><td>2008-09</td><td>44515</td><td>35562</td><td>80077</td></tr>
<tr><td>Total</td><td></td><td></td><td>121478</td></tr>
</table>
These shortfall figures were arrived by multiplying cement mill stoppages with practically feasible average cement mill production capacity of 96 tph. This has not taken into consideration the clinker availability in the plant which is required for production of cement. It is noted that during the above period, clinker produced in the plant were converted to cement.

Portlans Pozzolana Cement (PPC) is manufactured by adding fly ash 24.5% & gypsum 4.5% As against the estimated loss of production of Cement given in the above table and considering
</td></tr>
</table>

The average chemistry of clinker produced from limestone in the Pandarathu Miles of MCL. The unused clinker would work out to:

During 2007-08 - 41401 x 0.71 = 29394.71
During 2008-09 - 80077 x 0.71 = 56854.67

The company had practically no stock of clinker at the year end. MCL has not stopped production of clinker because of staggered supply of fly ash by ARK and even when they had cancelled the contract themselves and invoked the Bank Guarantee of Rs.50 lakhs from MCL illegally. Whenever there was excess clinker, the above clinker was used during the next year to produce and sell cement at a much higher rate. In Walayar, the installed capacity for clinker production is about 400000 MT per annum. During 2007-08 and 2008-09 the kiln had operated and produced 412000 MT & 431000 MT of clinker output. Thus the capacity utilization were above 100% during the above period. A reduction in 2009-10 in clinker output was basically because of huge downturn in Cement industry which led to low demand and low prices.

	DESCRIPTION	WALAYAR PLANT (mt)	CHERTHALA PLANT (mt)
	Installed capacity for clinker	400000	0
	Installed capacity for cement OPC in open circuit	420000	200000
	Cement PPC in closed circuit with a practically possible 24.5% of dry fly ash and 4.5% of Gypsum considering the quality of clinker from natural resources	528000 (80x20x330)	
	Clinker required for producing 528000 cement PPC	374880 (528000 x 0.71)	
	Balance clinker available for cherthala		25120 (400000-374880)
	Cement that can be produced at Cherthala plant with the available clinker		35380 (25120/0.71)
	Total cement that can be produced both in walayar and cherthala plants (Optimal in 330 working days in one year)		563380

Conventionally only OPC production was there which was manufactured by grinding the clinker adding 4.5% gypsum. Hence the installed capacity for cement was 4.2 lakh MT. This was the conventional cement. Later on, because of availability of slag from Steel plant and Dry Fly Ash from Thermal plant, researches were carried on and upto 25% addition of Dry Fly Ash or Slag (on an average) was permitted by the BIS and the company strived to achieve a higher output by producing Portland Pozzolona Cement (PPC) and Portland Slag Cement (PSC). Hence, availability of Dry Fly Ash and Slag was always a bonus when compared to conventional OPC production. Whenever, Dry Fly Ash was there, company produced PPC and whenever slag was there, the company produced PSC. Though OPC cost fetched Rs.300/MT additionally, MCL had only manufactured 4335 MT of OPC during 2007-08 and 21232 MT OPC during 2008-09 and not incurred any opportunity loss as observed. This OPC production was to maintain the OPC license and for supplying to a specific Government Order. Moreover, OPC was always sold at a higher price than PPC. There is no loss on account of OPC production.

The contents of the cost audit report signed by former MD clearly shows that MCL had not incurred any loss of production of clinker during 2007-08 as the capacity utilization was 103%. Production of cement taking Walayar and CGU put together was 569000 MT against a maximum possible 620000MT (420000 MT in Walayar and 200000 MT in Cherthala). However, this require additional clinker availability. Attempts to source clinker from outside did not materialize due to higher cost. Though Clinker was supplied from Walayar Plant, the Cherthala unit of MCL stopped because of labour problem. By a judicious mix, MCL could generate a profit of Rs.39.94 crores during 2007-08 against the profit of Rs.27

crores made during 2006-07. During 2008-09, MCL made a profit of Rs.47.86 crores, which would not have been possible if there is an opportunity loss.

Regarding the issue with M/s.ARK Woods and Metals Private Limited, the then Management in 2004 had entered into a contract with M/s.ARK Wood and Metals Private Limited (ARK) from November 2004 for supply of Dry Fly Ash for a period of 9 years. As per the terms and conditions of the contract, ARK was to supply an average 600 MT Dry Fly Ash per day at Rs.130/MT. An annual increment was suggested as per the contract in addition to maintenance cost, electricity charges, water charges and taxes and duties were reimbursable by the company. Dry Fly Ash was to be supplied from Tuticorin Thermal Power Station (TTPS) of Tamilnadu Eletricity Board (TNEB).

As per the contract, ARK was to deposit Rs.5 lakhs as Security Deposit and the company agreed to pay a compensation of Rs.50 lakhs for any premature termination of the contract. Bank Guarantees were executed by both the company and ARK. The serious issue was that this condition of higher penalty to the company did not safeguard the financial interest of MCL. The Management which accepted this clasue is in default. However action is being taken to recover the loss of Rs.52,45,396/- (Bank Guarantee + interest) due to invoking of Bank Guarantee illegally

		by M/s.ARK Wood and Metals Private Limited from the former MD, MCL, General Manager, MCL, Managing Director M/s.ARK Wood & Metals Private Limited, Executive Director, M/s.ARK Wood & Metals Limited and from the company M/s.ARK Wood and Metals (Private) Limited invoking the R.R A. In addition to this Vigilance Department has been requested to conduct a detailed enquiry to bring out the facts and to fix responsibility for lop sided contract conditions with M/s.ARK Wood and Metals Limited against the interests of the company as well as to take all possible steps to recover the amount. The company never refused fly-ash supplied by ARK so long as there was space available in its fly-ash silo. There has not been any instance of premature termination of the contract by MCL, which was a primary condition for encashment of Bank Guarantee for Rs.50 lakhs. Yet, this was en-cashed by ARK. It is clearly stated that stoppage of fly ash supply was not because of any direction from MCL, but was an action by ARK themselves. For this, the company officers are not responsible.

Sl. No.		Reply
		At the time of floating the tender company's intention was to have a second source of supply along with TAMIN and prolong the life of mines in the company. Company hoped to extend the agreement with TAMIN for another five years and wrote to TAMIN. However, TAMIN went on public tendering and chances of MCL getting limestone from TAMIN was bleak. In the circumstances, it was essential to have another source of supply of limestone. Moreover the stock position of cement grade limestone during that time was very precarious. Due to the above conditions, while negotiating with the lowest bidder M/s.Venkateswara Cements brought down the price from Rs.580.25 to Rs.570/- per MT, which was lower than the rate of TAMIN

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material finalised based on the public tender during that time. Due to circumstances explained earlier, MCL was forced to accept the condition of levying the penalty, if moisture exceed 6% on material and loading charges. Even though the party insisted for levying penalty for increase of moisture above 6% only on material, company made them to accept levying of penalty on material and loading charges after protracted discussions. In this connection it may please be noted that none of the major suppliers is willing to make pro-rata reductions in quantity or transportation and this is the practice with TAMIN and FACT to mention a few. Also if MCL had not accepted the revised price of Rs.570/MT quoted by Venkateswara Cements, company would have been forced to go to the second lowest bidder viz. M/s.Royal Trading & Co. who had given a revised rate of Rs.595/MT through which an additional expenditure of Rs.25/MT would have incurred. The tenders are framed with a general understanding of the situation, however based on the offers and the situation, suitable changes needs to be made in order to ensure continuous supply of essential raw materials in highly competitive and hostile environment.

As explained earlier, considering the then stock position of limestone and with a view to have second source for limestone, other than TAMIN, the amendments were made to Venkateswara Cements Contracts to ensure continuous supply of limestone to run the plant without interruption.

In the light of the above supplementary explanation and also considering earlier replies, the Audit query may please be dropped.

Para No.	Reply
2.3.11	2.3.11 The Company has framed a long term IT policy which is enclosed as Annexure.
2.3.27	2.3.27 Leave management system was not showing the correct leave balances due to incorrect input data. As each employee is provided with a Leave Book and time office is maintaining muster record which is mandatory, there is additional check with regard to employees leave balances. Since pay roll is calculated based on the leave updating in the system, now the inputs are also maintained correctly.
2.3.32	2.3.32 The ERP system is primarily used to capture production figures, consumption of raw materials etc at various stages of production. This is also integrated with financial ledgers. Stoppage hours, specific power consumption, etc are not updated as alternate systems are being used.

Information Technology Policy

Of

Malabar Cements Ltd

1.Preamble :-

Today Information and knowledge means a great deal more than material resources and physical inputs. Intense competition in the market and mass production capacities of manufacturing units are compelling the industries to have better systems that can provide quick and reliable information across the business activities. Manufacturers need to convert their factories into responsive, demand-driven, profit-making enterprises by optimizing their operations. Their competitive advantage and ultimate survival depends on the use of information systems and technology.

Malabar Cements started computerisation of its accounts from the year 1994 through in house developed software. With the knowledge and experience gained through this environment, company decided to go for an integrated ERP solution in the year 2006. SAP ERP was introduced for 6 departments such as Finance, Materials, Sales, Production, Plant Maintenance and Personnel in August 2007. With the introduction of ERP, company could improve the functioning of many business processes. MCL became the first PSU in the state to implement this globally acclaimed ERP software without recruiting any additional manpower.

2.Vision and Mission :-

Company's vision statement is "Towards a transparent efficient and model enterprise through business process re-engineering". To achieve this objective company decided to implement an ERP solution. The ERP solution was named as SATVA meaning Solution for Achieving Transparency and Value Addition. Company intends to extend the reach of Information technology to all business activities in a phased manner.

3. Strengths :-

Experienced human resources are the greatest strength of MCL. The employees are working in the computerised environment from 1994. With the introduction of SAP ERP system, employees have been trained to work in a globally accepted ERP environment. This will help the organization to further advance in the field of IT. The IT infrastructure includes an OFC link through out the length of factory as a back borne for a stable Local Area Network. Structured UTP cablings are linked to the above OFC back borne through switches. Wireless links are established to long distances offices such as mines office and ropeway. WIFI connectivity is provided in main office. A dedicated leased line connectivity is established to Cherthala office. Internet connectivity is provided in depot offices and laptops to access central database in Walayar. Domain servers, ERP servers, Antivirus servers, Firewall, SAN storage, Tape libraries, Routers, Layer 3 switches, more than 150 computer terminals with various operating systems and application software are also installed.

4. IT Applications :-

MCL maintains the books of accounts in electronic form. All the supporting documents are maintained in hard copies . Finance department monitors all the entries in General Ledger updated from various departments and direct them to correct entries wherever required. Windows operating system and Open office software are provided in all terminals for the purpose of regular office works. SAP connection and Internet connection are given in selected computers with permission from management. End users shall not install any application software in their terminal without the written permission from management.

Though MCL has introduced an ERP system, the full capacity of the software is yet to be utilized. This involves additional investments and time. Company will identify these requirements and implement it in a phased manner over the next 5 years. Company has also plans to extend various information to its stakeholders through company website. The presence of company in internet community will help people to access company news, details about product specification, the tenders and job advertisements etc. Company will explore the possibility to extend the company website to act as a gateway for customers to know their ledger accounts maintained in the company, suppliers to know the requirements of purchases, employees to know about their personnel details etc.

5.Security and Password Policies:-

The ERP software implemented in MCL uses an oracle database. The present size of the hard disk is 140 GB. With the current growth rate, only 40 GB of data increases every year. We have provided 1000 GB of data storage using a SAN storage device. This stores the critical data of ERP system. It has 7 hot swappable hard disks of 300 GB capacities. A RAID-10 configuration is established for data storage, where by the system can work without interference even with failure of 4 hard disks. Additional tape back ups are taken every day for the purpose of disaster recovery. The tapes store each day's data in a separate file. Ten 400 GB tape drives are used in a tape library for the above purpose.

The pass word for accessing and updating data are restricted through user names. The users are divided based on their positions. All clerical staff in a section are provided with one user name. Their immediate superior officers are given another user name. Department head will have independent user name. Apart form these, officer in cash counter has a separate username. All heads of departments have separate usernames. The respective user can change the password for security purpose. Wherever a common password is shared with more than one user, the password needs to be changed at least once in 3 months. Users should ensure that external people are not using the company data by knowing their passwords. The login session automatically ends with more than 10 failed attempts. User locks are also provided to ensure unauthorized accesses with number of login attempts. Users shall contact the IT department for release of locks in case of such eventuality.

Para No.	Reply
2.3	Selection of Implementing Agency without assessing technical competence. 2.3.12.

The Audit team stated that the section of implementing agency should have been based on expertise and experience of the implementing agency. But, we had awarded the work order to M/s.Keltron, considering the fact that they have signed a MoU with M/s.SAP for starting ERP implementation works, considering the 25 years experience of Keltron in electronic infrastructure projects and also to encourage the state Government PSU as per prevailing G.Os. Our contract was the first order to M/s.Keltron for ERP implementation. This had benefited M/s.Keltron, as their officers were involved in the projects.Though they had subcontracted the work to a third party, many of the software programs were directly developed by M/s.Keltron. We had awarded the project to M/s.Keltron for Rs.50 lakhs for implementation of ERP modules such as FICO, MM, SD, PM, PP and HR. This amount is very small compated to the industry standards. The company had withheld Rs.5 lakhs from M/s.Keltron for not completing some pending issues in time.; A new contract was signed with M/s.Questam Chennai as M/s.Keltron was delaying the inplementation idefinitely. We had spent only around Rs.3 lakhs for the contract with M/s.Questam. All essential accounting activities of the company are now being carried out in ERP.

Absence of User Requirement Specifications document.

2.3.13 As per clause 1.2 of the work order issued to M/s.Keltron, we had specifically stated that all activities being carried out with the help of old in - house developed software need to be implemented through the new ERP system. After the implementation of ERP, some utilities used earlier were replaced with best practices in the industry. However, all essential procedures for carrying out day-to-day activities of the business are implemented through this new system. There were some difficulties for using this new software initially. Now users are comfortable with this new software.

Deficiencies in configuration and programming

2.3.14 The audit team stated that various purchase requisitions are not being issued online through CRM Express and that item description in the pointouts only shows a few characters. But the fact is that. after the implementation of ERP. we had not raised any manual purchase requisitions till date. All the purchase requisitions are generated through ERP system and approved using on-line release procedures. The only problem that remained at the time of the audit was that, the print outs that were generated as a duplicate copy to the available information in the system did not print all the descriptions of the item. This was initially considered as not necessary, as all information were available in system. However, now we have modified the programme of print out also to print all information available in the system. CRM express is an additional utility programme M/s.SAP had given us free along with purchase of ERP ECC 6.0 This is primarily meant for sales activities and not for purchase.

2.3.15 The audit team stated that a material which requires quality checks needs to be held as "Restricted Stock" and that there is no provision in the system to do this. This is not true as most of the materials purchased in stores undergo quality checks. Some items such as fly ash are not taken through this route, as there is no sufficient storage capacity and process time to carry out all these activities. The quality checks for such materials are done from the source of supply itself. This is not a deficiency of the ERP system.

2.3.16 In price comparison reports, we compete only the prices of materials quoted by various vendors, ERP system gives a ready report for this. For additional information such as previous purchase order prices and sources of supplies, we have to look other reports in the ERP system. All these information are available separately. It is not possible to combine everything into a single report as needed by the audit team. The lack of such an integrated report does not hamper our decision making process. ERP system at least provides information through on-line reports which were not the case earlier when we had to compile

4.1.1
.2

everything from manual records.

2.3.17 The audit team found that in ERP system, when unit rates are maintained for large quantity of items with small values, the unit rate is shown as zero due to the restriction of number of decimal places to two. However with the help of consultants, we could identify that the correct procedure to adopt for such cases are to create new units of measurements. We are supposed to maintain new units of measurements for bulk quantities say 10,000 nos and not maintain prices fo single item. This procedure is now adopted and is working satisfactorily.

2.3.18. The audit team found that individual item codes are not maintained for all materials being purchased. This was a lapse from the user department. We have now instructed users to use separate item codes wherever possible instead of using generic item codes for similar items with small specification changes.

2.3.19 The ERP system provides a transaction code XK05 to block vendors from posting, from order proceeding or from both. Blocking (and unblocking) can be set, in either Financial Accounting or Materials Management. Thus all the remaining vendors in the system are approved vendors. Procedures for carrying out day-to-day activities of the business are implemented through this new system. There were some difficulties for using this new software initially. Now users are comfortable with this new software.

Deficiencies in configuration and programming

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M/s. SAP had given us free along with purchase of ERP ECC 6.0. This is primarily meant for sales activities and not for purchase. Implementation of CRM express involves additional huge investment and hence not considered necessary.

2.3.15 The audit team stated that a material which requires quality checks needs to be held as "Restricted Stock" and that there is no provision in the system to do this. This is not true as most of the materials purchased in stores undergo quality checks. Some items such as fly ash are not taken through this route, as there is no sufficient storage capacity and process time to carry out all these activities. The quality checks for such materials are done from the source of supply itself. This is not a deficiency of the ERP system.

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2.3.17 The audit team found out that in ERP system, when unit rates are maintained for large quantity of items with small values, the unit rate is shown as zero due to the restriction of number of decimal places to two. However with the help of consultants, we could identify that the correct procedure to adopt for such cases are to create new units of measurements. We are supposed to maintain new units of measurements for bulk quantities say 10,000 nos and not maintain new units of measurements for bulk quantities say 10,000 nos and not maintain prices for single item. This procedure is now adopted and is working satisfactorily.

2.3.18 The audit team found out that individual item does are not maintained for all materials being purchased. This was a lapse from the user department. We have now instructed users to use separate item codes wherever possible instead of using generic item codes for similar items with small specification changes.

2.3.19 The ERP system provides a transaction code XK05 to block vendors from posting, from order processing or from both. Blocking (and unblocking) can be set in either Financial Accounting or Materials Management. Thus all the remaining vendors in the system are approved vendors.

2.3.20. The audit team says that, user department could not define grade of raw material in the system and so cost reduction is not done in system. This is not true as all purchases are carried out based on certain terms and conditions regarding quantity, quality and services. The terms and conditions relating to quality and services are to be checked out by the respective officers on receipt of material. Based on the recommendations of the user departments, payments are released to the supplier. Apart from this usual practice, we have not thought of an alternate system whereby automatic cost reduction are carried out based on certain quality parameters.

2.3.21 The company has only one purchase procedure. By passing of this procedure is not recommended and hence not provided in the ERP system. For all emergency purchases, there will be proper support documents duly approved by competent authorities. All these documents will be available in the purchase file. We have not thought of a system whereby all the paper documents such as suppliers invoices, delivery notes, excise documents, our technical recommendations and approval notes are stored in computers.

2.3.22. We have mapped all release procedures for purchase requisitions and purchase orders through the ERP system and are in use now. But since purchase files are to be maintained for holding the other manual documents such as invoices, delivery notes, excise documents, approval notes etc, we are also printing the above documents and signing it manually. However without releasing the above documents by competent authorities through the ERP system, no further processing will be possible.

2.3.23 The ERP system had given provision for entering input data either one by one through input screen or mass upload from an excel sheet. Depending on the requirements of the user department, they decide which mode is to be used for updating input data. This does not by pass any input control.

2.3.24. For the calculation of payroll. MCL has decided to go for the negative attendance scheme due to various practical considerations. In this scheme. an employee's salary is calculated based on the number of absenteeism rather than attendances. If there is not absenteeism employee will get full salary. As per the present practice. employees leave particulars are updated in the system only at the end of the month. Manual compiling is necessary as muster records are also maintained.

2.3.25. With regard to the position numbers iof employees. some errors had crept in while updating the initial entries. Thus more than one employee had same position numbers. On identifying the above error. we have allotted fresh position numbers to all employees. All errors on account of this situation are now corrected.

2.3.26 There were some errors in the calculation of HRA. VDA and Conveyance allowances. The error in program logic is now corrected. The payroll program is now calculating the above variables correctly.

2.3.28 The section wise employees list were not working earlier due to wrong data entry. The unoput data is now corrected. Section wise reports are now available.

2.3.29. All deductions in the payroll are keyed in manually.Thus canteen coupon and co-operative society's loan are also need to be keyed in manually. Manual interventions in these areas cannot be eliminated completely.

2.3.30. the financial accounts for the year 2007-08 could be completed with some delay as the new system started during the middle of the year. But now financial accounts for the year 2008-09 are also completed. The balance sheet and P&L accounts for the 2009-10 are available online without the depreciation entries and year end accounting entries.

2.3.31. The ERP system is used to calculate payroll for all types of employees. The pay results are generated automatically by the system. There is no error in calculation of payroll. Only on verification of entire employees pay results. it is updated in general ledger. This is done through export option.

2.3.31. The ERP system is primarily used to capture production figures, consumption of raw materials etc at various stages of production. This is also integrated with financial ledgers. Stoppage hours, specific power consumption etc are not updated as alternate systems are being used.

2.3.33. SAP provides separate input screen for entering hourly quality parameters of various production processes in factory. This imposes some difficulty for the operators to feed data every hour. Alternatively we are maintaining shift log reports for the above purpose.

2.3.34 The quantitative and qualitative details of all raw materials can be captured in SAP. The procedure adopted for laterite, lime stone etc can also be used for other materials. This is possible with proper maintenance of material master file.

2.3.35. All stock transfer invoices in SAP are generated based on stock transfer order utility ME21n. There are lots of areas in ME21n to enter invoice number of the original consignment. Thus tracking of empty bag invoices can be easily done.

2.3.36. The SAP transaction FBL5n displays customers actual balance position. This report displays all credit and debit due to a customer. This report can also be printed.

2.3.37. The provision for updating CRC numbers against an invoice is provided. A report is also provided to print exception list. Thus there is no pending issue now.

2.3.38. The provision for entering equipment running hours are available in SAP system. This is used in our mines engineering department. This helps in preventive maintenance work.

2.3.39. We are using inventory control techniques such as ABC analysis, Non-moving analysis etc to control the inventory level. Though the new ERP system is capable of raising automatic indents when the stock of materials goes down, we have not considered such sophisticated technique, as necessary for the time being.

2.3.40 SAP India gave us the CRM Express software free along with the purchase of ERP ECC 6.0. Only 5 licences of the software are given to us. In order to implement CRM Express software for all the 250 dealers of the company more licenses need to be procured. We have to invest a huge amount for the other hardware and implementations. The above software was given to us for trial purpose only.

2.3.41 SAP India gave us the ESS software free along with the purchase of ERP ECC 6.0. Only 70 licences of the software are given to us. In order to implement ESS software for all the 1000 employees more licences need to be procured. We have to invest a huge amount for the other hardware and implementations. The above software was also given to us for trial purpose only.

2.3.42 Since SAP EH & S application require additional implementation cost, we have not considered this in the current phase.

2.3.43. Security and password policy are framed now

2.3.44 We have further conducted section wise training programs to all the departments during November and December 2008 to use the new ERP system effectively.
As per the recommendations of the audit team, all essential utilities of ERP modules are implemented now. The users are given sufficient training. The Software is working satisfactorily and gives all required reports of the last two years.

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