

## **Performance Audit of Information Technology (IT) Systems in Jammu and Kashmir Bank Ltd.**

### **Highlights**

**Physical and Network security was inadequate at the Bank's critical Data Centre which is connected to 154 branches and 173 ATMs.**

(Paragraph: 6.2 & 6.4)

**More than 154 Core Banking Solution branches are being run without any Disaster Recovery Plan or site since 2003 thereby exposing the system to the risk of disruption of its operations in the event of any disaster.**

(Paragraph: 6.8)

**Inadequate control over inoperative accounts restricted the Bank in reporting reliable information regarding unclaimed accounts to RBI.**

(Paragraph: 7.2)

**Zero balance accounts were not logically closed which is fraught with the risk of being misused besides inflating the number of accounts.**

(Paragraph: 7.3)

**Unique identification codes were not assigned to different type of accounts. As a result, benefit of preferential rate of interest on saving bank and term deposit accounts could not be ensured to the right person.**

(Paragraph: 7.5)

**Non-application of minimum balance charges resulted in loss of revenue to the Bank.**

(Paragraph: 7.6)

**Inadequate interest parameter setting under various loan schemes resulted in non-calculation of interest on overdue principal and consequent loss of revenue to the Bank.**

(Paragraph: 7.8)

**Deficiency in database rendered it unreliable and incomplete. Vital information like date of birth, addresses, names of introducers, PAN of customers was not recorded at all in 26 test checked branches.**

(Paragraph: 7.10)

**Absence of a Centralised Codification process for master data led to fragmentation of the database.**

(Paragraph: 7.11)

**Inadequate IT planning resulted in infructuous expenditure of Rs. 2.72 crore on purchase of software and hardware, which could not be utilised after adoption of 'Bancs 2000' software.**

(Paragraph: 8.2)

**Defective planning and adhocism in setting up of the Data Centre, without conducting technical study resulted in wasteful expenditure of Rs. 11.55 lakh.**

(Paragraph: 8.4)

**Due to failure to adopt a discernable procedure in selection of vendors, the Bank could not benefit by competitive purchases resulting in an excess payment of Rs. 2.46 crore on purchase of servers, desktops and UPS.**

(Paragraph: 9.1 & 9.5)

**Lack of review of price and analysis of technological developments deprived the bank from availing the benefits of decline in hardware prices and resulted in purchase of obsolete technology at higher prices leading to excess expenditure of Rs. 7.82 lakh.**

(Paragraph: 9.2)

**Bank incurred an avoidable expenditure of Rs. 65.04 lakh on account of liasoning charges paid to a private firm for providing mediatory services pertaining to BSNL/MTNL lines.**

(Paragraph: 9.8)

**Lack of proper evaluation for setting up ATMs led to an unfruitful expenditure of Rs. 3.32 crore on installations and upkeep of nonviable ATMs.**

(Paragraph: 9.10)

**Delayed and partial launch of e-Banking resulted in delay in accrual of intended benefits to the consumers even after spending Rs. 64.78 lakh on the project.**

(Paragraph: 9.11)

## **Introduction**

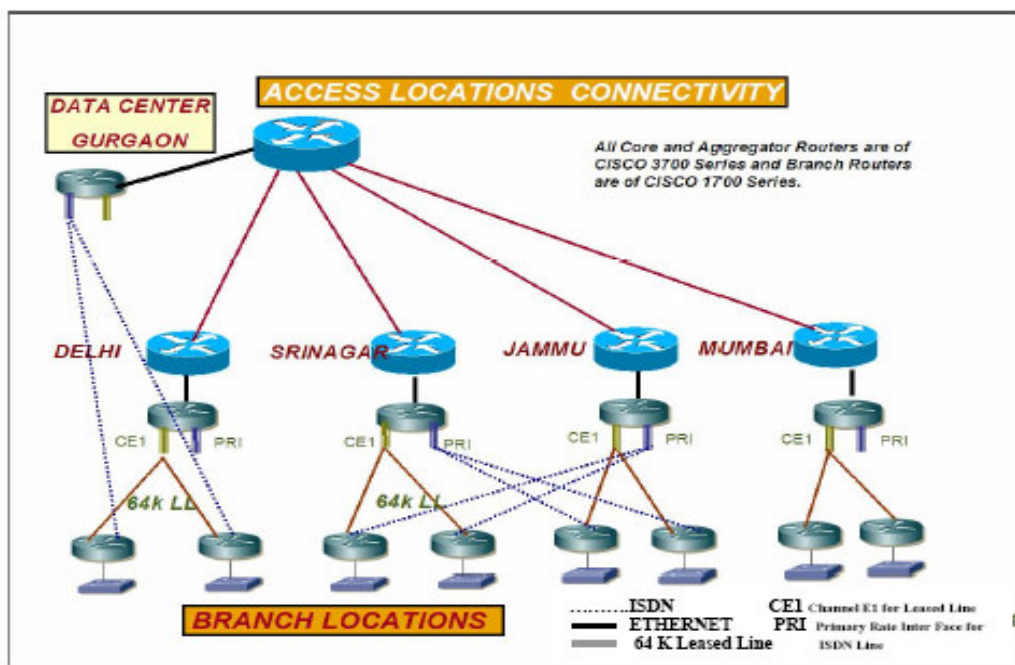
**1.** The Jammu and Kashmir Bank Ltd. was incorporated on 1st October, 1938 under provisions of the Companies Act (Samvat 1977/ 1920 AD). The Bank functions as a Government Company in terms of Section 617 of the Companies Act, 1956. The working of the Bank is also regulated under the Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934. The main objectives of the Bank are:-

- To establish and carry on the business of a Banking Company;
- Lending/advancing money;
- Deal in securities both of its own and on behalf of the customers;
- Carry on and transact guarantee and indemnity business etc.

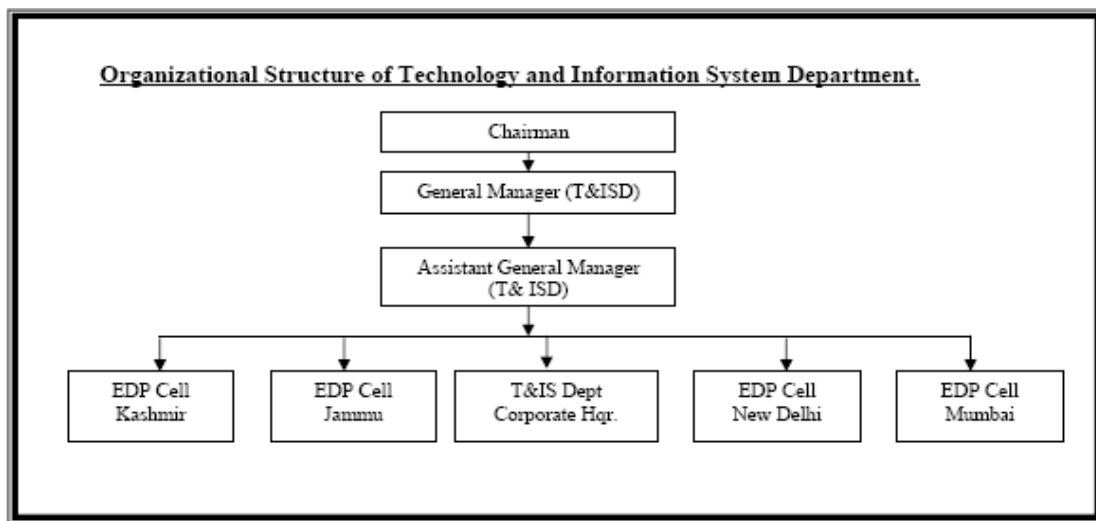
The objective of introduction of Information Technology was to provide speedy, quality, economic and efficient customer service, strengthen Management Information Systems, reduction in manpower and paper work.

The Bank has 517 branches (including extension counters) out of which 429 branches are computerised (June, 2006). Of these, 154 branches are running on Finacle application and are linked to Bank's Data Centre at Gurgaon. 240 branches have a distributed database and are running on Bancs 2000 (B2K) software. Remaining 35 branches function on stand alone Computers.

**Network Diagram of the Core Banking Solutions Branches.**



The Management of the Bank is vested in a Board of Directors comprising 8 Directors, including the Chairman. The day to day activities of the Bank are managed by the Chairman, who is also the Chief Executive. He is assisted by an Executive Director, an Executive President, six General Managers and three Joint General Managers at Corporate level. The Technical and Information System at the Corporate Office is headed by a General Manager who reports to the Chairman.



### Scope of Audit

2. The performance of the Bank with regard to planning, implementation and monitoring of the Computerisation process was reviewed during September 2005 and January 2006 covering the period 2001-06. Audit of Data Centre and Technology and Information System Department was conducted between July and September 2006 with a view to obtaining a reasonable assurance as to the accuracy and consistency of data. Existence and adequacy of IT controls and Network controls were also reviewed. The audit was conducted at 26 (six percent) branches (*Appendix-I*) selected on random selection basis.

### Audit Objectives

3. Audit was undertaken with a view to assess:
- the efficacy of the bank's IT planning and implementation;
  - whether sufficient controls are in place to obtain reliable and accurate information from the IT system;
  - whether the system security measures are in place to ensure confidentiality, integrity and continued availability of IT assets; and
  - adequacy of internal controls in information systems.

### Audit Criteria

4. The performance of the bank was assessed against:
- CoBIT Framework with regard to acquisition of Assets and implementation of IT;
  - Internal circulars of the Bank regarding Inventory Management;
  - Circulars/Instructions /Policy regarding Banking Operations;·
  - Security policy of the Bank; and
  - RBI guidelines on various issues like in-operative accounts, Anti money laundering policy etc.

### Audit methodology

5. A mix of the following methodologies was used :
- Scrutiny of documents relating to development, implementation, procurement of hardware and software maintained in the Corporate Headquarter of the Bank;
  - Scrutiny of security policy adopted by the Bank and its implementation;
  - Testing of application controls in IT applications running in the Bank;
  - Downloading and analyzing the database for assessing completeness, correctness and reliability of data; and
  - Personal interaction with the Management.

## **Audit findings**

Audit findings were reported to the Government/Management in October 2006. The review was finalised after considering the Management's reply.

The audit findings are discussed below:

### **6. Information Security (IS)**

#### **Inadequate IS Security Policy implementation**

**6.1** It was observed during audit that having started its IT operations in 1996, the Bank had not formulated any Security Policy until 2005. In February 2005, an Information System Security Policy was formulated which appeared to be a promotional document of Network Solutions<sup>ψ</sup> rather than an internal document of the Bank. This was kept on Bank's intranet site which is restricted to System Administrators only and no other means of its dissemination to the operational level were adopted. Thus, inadequate dissemination of the policy at branch level resulted in most of the staff (Bancs2000 branches) being ignorant of this policy thereby defeating the purpose for which it was meant.

The Bank had not so far (July/2006) nominated any IS Security Officer/IS Security Managers for implementation of IT Security Policy or other IT related issues. As a result there was absence of proper feed back to the Senior Management regarding implementation of IS Security at Branch level.

The Management stated (July 2006) that the audit observation had been noted for strict compliance.

#### **Inadequate security at Data Centre**

**6.2** Bank's IT operations are managed at Data Centre at Gurgaon which coordinates/ monitors /supports more than 154 branches and acts as a backup site for 173 ATMs of the Bank requiring high security and maintenance. Audit of Data centre, however, revealed the following security lapses:-

- There were no Physical Access Controls for safeguarding critical areas like Server room, Communication room, UPS room. The access control system installed was not functioning and no alternate arrangements had been made. Even though the Bank had a Security Policy, the doors did not have mechanical bolts/locks. Besides, access to a spare equipment room, which was also accessed by vendors, was through the Server room. Proper locking system at the main entry door (glass) was neither provided nor a Physical Security Officer appointed.

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<sup>ψ</sup> A Private Vendor

- Security Cameras were inadequate and their placement had not been considered using the design template of the Data Centre as a guide. Even the cameras placed were not working properly and there was no monitoring through Close Circuit Televisions (CCTVs).
- The heavy duty fire fighting equipments (FM 200 Gas system) procured by the Bank had neither been tested nor commissioned and the fire alarm system was not being maintained. No instructions were displayed for use of these equipments. Further, there was nothing on record that user staff had been trained to handle these equipments.
- The building housing the Data Centre was provided water sprinklers for fire extinguishing which is detrimental to computers/data and other equipment.
- There was no Annual Maintenance contract for critical systems like access lock system, CCTV, fire alarm, fire fighting system. Thus, these expensive equipment was not safeguarded against breakdown (July 2006).
- The UPS installed at Data Centre had never been tested for fault tolerance. With increasing pressure on account of high growth of Bank's business, there was an increased demand for hardware reliability. Contrary to this, it was seen that there was output failure from UPS (2nd and 3rd June 2006) causing failure of network devices and shut down of all critical business services. The lackadaisical approach of the Bank Management in addressing such problems had earlier also resulted in a fire at New Delhi (the previous Data Centre) on 22 September 2004 damaging equipments worth Rs. 27 lakh, attributed to AC leakage.

The Head of Data Centre stated that the problems concerning improvement in infrastructure / security at Data Centre had time and again been communicated to the Corporate Headquarter at Srinagar and action was awaited (Aug 2006).

### **Logical Access Controls**

**6.3** In a client server environment, lack of security renders the system vulnerable to unauthorised access. In three of the inspected branches (Sidhra, Miran Sahib and Akhnoor), audit checks, however, revealed that default passwords were running and had not been changed by System Administrator/Branch Manager (Aug 2005). Default password of "System" user in respect of Oracle was found to be running in almost all the branches. In most of the branches, user accounts in respect of staff transferred or on leave were not found deleted or deactivated. In Rajendra Place and Chandni Chowk (Delhi Branches), user IDs were found in excess. In one of the branches (Patel Nagar, Jammu) the full system Administrator's rights were being exercised by eight staff members (September/2005).

Further, an undertaking from users for maintaining the confidentiality of password was not obtained in respect of all the branches.

The Management stated (July 2006) that necessary instructions were issued to the branches and default passwords had been changed.

### **Inadequate Network Security**

**6.4** Use of Internet in the Bank has exposed its Local Area Network (LAN) to outsiders, making it imperative to secure the network against unauthorised intrusion in order to protect information assets critical to the smooth operation and the competitive well being of the Bank. Audit, however, observed the following security deficiencies in the network:

- The LAN of the Bank was connected to internet through two gateways. Moreover, at the ‘Technology and Information Systems Department’, Srinagar there were no firewalls or Intrusion Detection System (IDS) in place to provide necessary isolation between internal and external network or detect any unauthorised intrusion. Similarly, Data Centre at Gurgaon, which is connected to 154 branches and offices and also to RBI through extranet did not have firewalls or IDS in place. Moreover, there was neither a designated Chief Security Officer nor any Firewall Administrator.

The Bank had so far not put any **Intrusion Prevention System (IPS)** or **Enterprise Security Solutions** in place while opening up new services like e-Banking etc. to its customers. Licenses for two IDS in the New Delhi site office, which coordinates / monitors /supports 173 ATMs and e-Banking facilities, had expired long back in February 2005 and December 2005 respectively and had not been renewed so far (July 2006).

- Despite the fact that most of the branches and ATMs are on network, the Bank had not conducted any network penetration testing from an independent agency. Instead the Bank had got “Internet Banking Security Assessment” done at the New Delhi site by Network Solutions Limited, which was the vendor for almost all networking projects (including supply of networking equipments). Besides, the Bank had tested the security assessment at Ansal Plaza site only for Internet banking facility and the assessment was not extended to the whole Bank.
- Audit also observed that the Bank had so far not adopted Network Time Protocol (NTP) for synchronisation of all routers<sup>Ω</sup>. During discussion with the Network Management personnel it transpired that in its absence, if a router loses power or the Network Administrator needs to reload it, time and date are lost. Consequently, all log files, time based access list or any other configuration based on time or date would either be incorrect or would not work at all. Also, if a router is

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<sup>Ω</sup> A device or setup that finds the best route between any two networks



removed because of mistake or with malafide intention, the Administrator would not be able to find logs to track the source. Thus, in the absence of synchronisation, proper data transmission would be adversely affected. The Management stated (Aug 2006) that NTP project got delayed as the Data Centre was without a head and that NTP would be taken up on top priority.

- The IP<sup>♦</sup> addressing scheme of the branches was not uniform. This would hamper the Bank's efforts to have a more dynamic routing protocol if needed to support its rapid expansion of networks, consistent increase in CBS Branches, need for 24 X 7 hour operations and dealing with persistent problem of network failures. The Management stated (August 2006) that the respective Zonal EDP Cells had been asked to accelerate the process of IP migration.

### **Documentation and Change Management Control**

**6.5** Effective preparation, distribution, control and maintenance of documentation is helpful in reuse, conversion, correction and enhancement of the IT system.

It was observed by Audit that none of the inspected branches (except Talab Tillo) maintained proper documentation of various activities such as backups, password changing (activation and deactivation), declaration from staff regarding maintaining secrecy of passwords, software problem register, AMC register, IT assets inventory register etc. Similarly, it is necessary to ensure that all system changes, whenever made, are authorised at appropriate levels, documented, thoroughly tested and approved. It was, however, observed that no records were maintained for the changes made in the System or Application Software or the master data, from time to time especially the changes made in rate of interest on various schemes at the branch level. Further, in one of the branches (Bakshi Nagar Jammu), it was revealed that the creation of fresh interest codes consequent upon changes of interest rates was communicated by the Zonal office on phone.

The Management stated (June, 2006) that instructions had been reiterated recently.

### **Updating of records through Back-end Command Usage**

**6.6** In a client server architecture, where the front end application is in use, the use of back-end updation of data is restricted for the sake of security and audit trail. Audit observed that records in address field indicated as if these had been populated by use of SQL commands at the back end which implies that the system was being left open for field updation and was vulnerable to the risk of possible back-end manipulations. In Finacle, it resulted in updating of Customer address field by the word "NEW DELHI" in respect of all the

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<sup>♦</sup> Internet Protocol for delivering data across networks

Finacle branches. This had resulted in the customers of branches like Gangyal, Jammu (995 customers) and Kachhi Chawni, Jammu (445 customers) having incorrect and unverifiable address as “NEW DELHI” indicating absence of strict checks over use of back-end commands.

The Management stated that during migration of branches from ‘Bancs 2000’ to ‘Finacle’, some default values were being populated in fields like Address etc. for which no data was present in ‘Bancs 2000’. These had to be corrected after details of each customer were obtained under ‘Know Your Customer’ norms. Further, such updation was executed through application and not through SQL. The reply is not correct, as, in a large number of cases noticed in Jammu, the records display New Delhi as their address.

### **Backup Controls**

**6.7** Any RDBMS/EDP system requires proper strategy for backup and restoration to ensure that periodicity of backup of transaction data and master data is clearly specified, backups are stored both on-site and off-site and that usability of backups is regularly verified.

Audit observed that, a back-up policy had been adopted by the Bank and same disseminated to the branches by means of circulars. In the inspected branches, though the backups were being taken at regular intervals (daily, weekly, fortnightly), but the procedures associated with documentation, safe custody and testing were not being uniformly implemented by the branches. Besides, proper backup registers depicting the daily backup processes and storage and testing details had not been maintained by the branches. It was found in 10 out of 20 stand alone branches inspected, that off-site backup and duplicate media were not maintained. Even the data centres at Gurgaon and New Delhi sites, which were manning the CBS operations, did not have the requisite backup documentation in place.

The readability of the critical backup media was also not tested periodically for restorability in all the branches except Talab Tillo, Jammu. Lack of systematic procedure for regular backup and not regularly checking the usability of the backup has the risk of disruption in operations when the backup data are put to use. The Management stated (June 2006) that EDP cell/IS auditors had been instructed to ensure that the branches meticulously follow the instructions.

### **Non Existence of a Disaster Recovery Centre and Business Continuity Plan**

**6.8** The Bank launched its Core Banking Solution (CBS) operation by switching over to Finacle in the year 2003 and the number of such branches has gone up to 154 (November 2006). A pre requisite for the smooth functioning of CBS operation is setting up of a Data Centre and a Disaster Recovery Centre (DR), simultaneously. It was observed during audit, that, the Bank had been running its 154 CBS branches without a DR site, thus running a risk of disruption of its operations in the event of any disaster to its main Data Centre at Gurgaon. By not having a DR Site, the Bank’s data continues to remain in jeopardy. The Management stated (November 2006) that the New

Delhi site is a stand- by site, where the backup from Gurgaon 'live site' are restored continuously, which can take up the load of critical operations in case of any eventuality. Also full fledged DR site at Mumbai would be operational within a month or so. The reply is not tenable as the New Delhi site with low end sever was inadequate as a DR site due to security considerations. Moreover, it was also in the same seismic zone and in close geographical proximity to Data Centre at Gurgaon.

Business Continuity Plan (BCP) envisages development of written plan containing the recovery procedures meant to bring business back to the state it was, before the disaster or incident occurred. Procedures to safeguard and reconstruct the computer site and alternative processing procedures to be used until the IT function is able to fully restore its services should also be established.

It was found during audit that despite having most of its business computerised during the last 8-10 years, the Bank had not so far put in place any documented Business Continuity plans or IS Contingency plans, specifying the procedures to be followed for restoring the IT operations in the event of any damage or disaster. Besides, the Bank had not so far carried out any exercise to classify its data on the basis of sensitivity and risk perception. The Management stated (July/2006) that a detailed BCP was under documentation.

## **7. Application specific Controls**

### **Multiple Customer Identification Numbers (CID Nos.)**

**7.1** A unique Customer Identification Number ID is allotted to each customer for identification. Audit observed that a single customer had been allotted multiple customer IDs and such instances existed in all the 26 inspected branches. In the absence of date of birth, permanent address, parent name and other details, it was not possible to come out with the exact number of such cases. Data analysis of seven test checked branches revealed that 117 customers exist where customers had been allotted more than one customer ID. In Air Cargo branch, Srinagar a single customer had been allotted 15 Customer IDs under various schemes (Saving Bank, FDR, CCR, etc.). This defeated the very objective of customer identification, besides rendering the data base unreliable. This is also fraught with the risk of tax evasion to be deducted in respect of aggregate interest earnings by a single customer and inability to monitor money laundering. The Management stated (May 2006) that compliance /follow up shall be ensured through inspections. The reply is not tenable as the Bank needs to evolve a Centralized Customer ID Scheme instead of the present Branch Specific Scheme (Bancs 2000 branches). This will ensure segregation and allotment of unique customer ID to people with similar names and result in smooth running of CBS as well.

### **Inadequate control over inoperative Accounts**

**7.2** As per RBI guidelines, the balances in Saving Bank, Current deposit, Fixed Deposit, Cash Certificates and Recurring Deposit accounts which

remain dormant for three years or more are to be transferred to “Inoperative Category”. Such accounts which continue to remain inoperative for seven years or more are transferred to “Unclaimed Deposit Account”. Any withdrawal from Inoperative accounts and Unclaimed Deposits has to be authorised by the District /Area Office and Corporate Office of the Bank respectively.

It was, however, observed during audit that:

- No uniform procedure has been adopted in uploading inoperative accounts during data migration from hard data. Some branches had uploaded these accounts as normal accounts (account wise) while some other branches<sup>∞</sup> had uploaded the aggregate balances of these accounts, which were being monitored by relying on paper based files, thus defeating the purpose of computersation.
- In respect of branches using Finacle, the inoperative accounts had not been uploaded with appropriate flag, as a result, these accounts were found running as active accounts in the system due to Bank induced transactions, like interest application etc. The system was therefore unable to differentiate between Bank induced transactions and customer induced transactions, with the result that such accounts could not be categorized into dormant/unclaimed deposits, as the case may be. This resulted in the Bank being unable to report reliable information in respect of all unclaimed accounts to RBI and non-monitoring of inoperative accounts to provide necessary checks over withdrawals from these accounts and to prevent misuse of these accounts. (Chandni Chowk Delhi, Talab Tillo, Bakshi Nagar, Jammu).

The Management stated (July 2006) that the branches were being rolled over to CBS and the issue was being taken care of by the Finacle application which was customised to automatically marking actual status against each account viz. inoperative/dormant. Further, those branches which had uploaded the aggregate balances in any account head were being followed up for opening of individual accounts. The reply is not acceptable as this problem persists in Finacle branches also primarily because the accounts have been uploaded from Bancs 2000 to Finacle without prior classification under inoperative /dormant head, as the case may be.

#### **Non closure of Zero Balance Accounts**

**7.3** As per Bank instructions, all accounts where the balances become zero on any particular day have to be immediately and logically closed by running a specified command.

During check of the data of 11 branches<sup>↔</sup> running on Bancs 2000 (Sept-Nov 2005), it was observed that 1149 accounts under various schemes,

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<sup>∞</sup> Bari Brahmana and Fruit Complex, Jammu

<sup>↔</sup> Bakshi Nagar: 54, Bari Brahmana: 169, Canal Road: 29, High Court Jammu: 121, Janipur: 59, Katra: 43, Medical College: 230, Patel Nagar: 52, Shalimar: 134, Shakti Nagar, Udampur: 87, Talab Tillo: 171.

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such as Saving Bank, Recurring Deposits, Cash Certificates, Fixed Deposits etc. with zero balances were lying open as these were not logically closed by the branches. Such zero balance accounts have the potential of being misused for perpetuating frauds besides inflating the number of accounts. Audit also observed that these accounts, though having zero balance, were lying as active accounts in the database.

The Management stated (July 2006) that IS auditors check such accounts and ensure on the spot rectification. Besides, the Data Centre generates a report of zero balance accounts of Finacle branches on a daily basis and the same are mailed to the concerned branches. The reply is not acceptable as 1,537 accounts in three sampled Finacle branches<sup>Π</sup> with zero balances under various schemes were lying unclosed as on 1 January 2006.

### **Defective Anti Money Laundering Policy Implementation**

**7.4** In pursuance to RBI directives, the Bank formulated (March 2003) an Anti Money Laundering Policy (AML) which envisages obtaining comprehensive details of each customer, both existing as well as those opening new accounts with the Bank. Accordingly, the Bank developed a form known as “Know Your Customer” (KYC) form which was revised in June 2004 to make it more detailed. The additional personal details relating to assets, dealings with other banks, occupation and family strength, family income details etc. were to be obtained from the existing customers by 31 December, 2004 and from all new customers in future.

Audit scrutiny revealed that none of the inspected branches had so far collected ‘Know Your Customer (KYC)’ details from all its existing customers, by the target date and the inspected branches did not enter the relevant additional details provided by the customers thereby defeating the purpose of introducing KYC form.

The Management stated (July, 2006) that steps were being taken to persuade branches to immediately obtain KYC details from the existing customers through constant monitoring by Inspection and Vigilance Executives, Zonal/Area Heads and concurrent audits.

### **Incorrect application and misuse of preferential rates of interest on Saving Bank & Term Deposit Accounts**

**7.5** The Bank allows preferential rates of interest to the staff account holders (on Saving Bank and Term Deposit Accounts) and to Senior Citizen account holders (on Term Deposit Accounts). These preferential rates are 1 *per cent* and 0.5 *per cent* respectively above the rate of interest offered to General Account holders.

Audit observed that due to lack of adequate details or allotment of unique identification codes to such types of accounts, the genuineness of

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<sup>Π</sup> Ansal Plaza: 293 accounts, Gangyal: 704 accounts, Kachi Chawni: 540 (12/2005)

account holders getting these preferential rates of interest could not be fully verified. In addition, due to absence of dates of birth of customers, it was not possible to establish as to whether these account holders who are getting preferential rates on account of being Senior Citizens were genuine or not. Data analysis also revealed instances where the preferential rates of interest had been allowed to non-eligible account holders. In case of three sample branches (Fruit Complex Narwal, Rehari, Canal Road Jammu), preferential interest rates had been allowed on Minor's accounts also. The possibility of existence of such erroneous interest settings in branches across the Bank cannot be ruled out.

The Management stated (July, 2006) that the concerned branches had been directed to locate and rectify the irregularities and report compliance. Besides, the Bank was contemplating including this item in their concurrent/IS audit checklist.

### **Minimum balance charges**

**7.6** As per the policy, the Bank charges Re.1 and Rs. 2 for each day when the balance in a saving bank and current account falls below Rs. 1,000 and Rs. 3,000 respectively. It was observed in audit that these charges were not being system generated across all the inspected branches and that there was no uniformity in application of minimum balance charges. Failure of the Bank to generate these charges through the system had resulted in loss of revenue to the Bank.

The Management stated (May 2006) that the system was tuned to calculate such charges and implementation was ensured through audit checks. The Management's reply is not tenable as, despite audit checks, the branches were not utilising the system. The Bank was yet to segregate accounts like salary account and accounts opened under various social welfare schemes, where such charges are not applicable. In the absence of such segregation the system would generate minimum balance charges for all the accounts.

### **Non-uniform lien marking policy**

**7.7** Individual saving (S/B) bank account holders are required to maintain a minimum balance of Rs. 3000 (Rs. 1000 for Corporate and Institutional employees drawing their salaries through such accounts). Accordingly, the branches were required to mark lien (minimum deposits) of Rs. 3000 and Rs. 1000, as the case may be, in all accounts where ATM Cards had been issued. Audit observed that branches did not follow the instructions, with the result that in eight accounts in New University Campus branch, ATM cards were issued to customers with even zero balances. Further, in High Court Complex branch no lien was marked in the accounts having ATM Card Facility. In three branches<sup>∞</sup> a lien of Rs. 1000 was created on S/B Accounts despite these being non-salary accounts. In branches where a lien of Rs. 1000 on ATM card holding Saving Bank Accounts was created, the system couldn't identify as to whether these accounts were actually salary accounts and consequently

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<sup>∞</sup> Bakshi Nagar, Janipur, Medical College

allowed operation. This resulted into inadequacies in lien marking, besides, violation of instructions in this regard.

The Management stated (June, 2006) that branches had been instructed to do the needful and report compliance.

### **Inadequate interest parameter setting on loan accounts**

**7.8** In respect of term loan accounts where recovery is made on monthly and quarterly basis, the interest parameters have to be flagged in the system. Audit analysis of data revealed that the interest parameters of term loan accounts were not uniform and the instructions on this account were not being followed by the branches. All the 26 branches test checked were found to have skipped parameters relating to Interest demand on overdue principal and corresponding interest elements. System settings in this regard had either been partial or had been ignored completely. Simultaneously, the penal interest rates had also been found missing in all branches, non-specifying of which results in non-calculation of interest on overdue amounts even after correct parameterisation. Data analysis of eight branches revealed that parameters in respect of 3726 accounts<sup>ψ</sup> (June 2006) under various loan schemes were not set as per the instructions. Definition of penal interest portion with interest code against the loan schemes had been found missing in all the test checked branches. This had resulted in non-calculation of interest on overdue principal in cases where instalments were not regular and, as such, become overdue on the last day of the month to which the EMI pertains and cause loss of revenue to the Bank, over the years.

In branches using Finacle application, despite centralised parameterisation, 460<sup>#</sup> accounts in three sample branches under various loan schemes were found having inadequate loading of parameters on this account. In the case of one branch (Gangyal-Jammu), no interest was being charged on interest demand in 81 loan accounts under COTHS scheme<sup>∞</sup> (June 2006).

While admitting the audit observation, the Management stated (July 2006) stated that instructions had been issued for necessary rectification at the branch level.

### **Variations between the General Ledger and System generated figures**

**7.9** Audit scrutiny revealed that there were variations aggregating Rs. 2.76 lakh between the interest accrued figures generated by the System and those of General Ledger, in case of five branches<sup>φ</sup>. These figures had not so far been reconciled (October, 2005).

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<sup>ψ</sup> Bakshi Nagar: 120, Fruit Complex Narwal: 30, Janipur: 16, Katra: 280, Patel Nagar: 40, Rehari: 650 (9/2005-11/2005), Shakti Nagar Udhampur: 190 and Tallab Tillo: 2400,  
<sup>#</sup> Ansal Plaza: 81, Gangyal: 377 and Kachi Chawni: 82 (06/2006)  
<sup>∞</sup> Consumer loan other than staff  
<sup>φ</sup> Bakshi Nagar, Fruit Complex, Katra and Miran Sahib, R.S. Pura.

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The Management stated (July 2006) that untallied interest accrued figures were due to improper handling of term deposits at branch level and that steps were being taken to mark such accounts as ‘system only’ wherein no manual transactions were allowed.

### **Incomplete/incorrect data migration**

**7.10** The Bank did not have any system for verifying the correctness/completeness of the data during migration of manual records to electronic form. As a result 8706<sup>\*</sup> records of seven test checked branches had the address field completely blank and 2058<sup>©</sup> records had their address as “JAMMU AND KASHMIR” or “Same as above”. Similarly, 41662<sup>f</sup> customers in seven test checked branches did not carry the names of introducers or carried bogus names like 123, BM, ABC \*\*\* etc. so to ensure system acceptance of the data. Vital details like PAN, date of birth of the customers had not been recorded at all. As a result, even after computerisation, the Bank continues to be dependent on hard files.

Temporary accounts created at the time of data migration for subsequent transfer to the individual accounts are still lying uncleared. The balances under these accounts should have been brought to zero immediately and closed down. Audit scrutiny, however, revealed that an aggregate amounts of Rs 1.90 crore (credit) and Rs (-) 10.30 crore (debit) were lying uncleared in seven test checked branches (November 2005), in the accounts opened and classified as LIVE at the time of balance upload. Similar accounts were lying open in branches located at Jammu like Talab Tillo, Katra, Canal Road (pertaining to schemes like MBDS<sup>≈</sup>, FDR<sup>↔</sup>, MDS<sup>Π</sup>, CDR<sup>™</sup>) wherein an aggregate amount of Rs 20,739,128.90 (credit) was lying uncleared as of November 2005.

It is obvious that the branches had not been able to identify the actual accounts of these balances despite a lapse of 3-5 years after computerisation of these branches. Non-disclosure of actual accounts to which these balances relate is a serious matter, as such accounts carry the risk of being misused.

The Management admitted (June 2006) that one Demand Loan account in Katra Branch and another housing loan account in Canal Road Branch was still uncleared.

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\* Air Cargo Srinagar 7575, Bari Brahmana 142, Bakshi Nagar 56. Canal Road 125, Fruit Complex 63, Shakti Nagar Udhampur 625, Shalimar Jammu 120.

© Bari Brahmana 201, Bakshi Nagar 630, Canal Road 421, Fruit Complex 644, Shalimar 162

<sup>f</sup> Air Cargo Srinagar 8428 out of 26891, Bakshi Nagar 3672 out of 17185, Bari Brahmana 7650 out of 10507, Canal Road 1531 out of 15680, Fruit complex 90 out of 8214, Shaktinagar Udhampur 2574 out of 14755, Shalimar 17717 out of 39396,

≈ Multi Benefit Deposit Scheme.

↔ Fixed Deposit Receipt

Π Millennium Deposit Scheme

™ Cash Deposit Receipt.

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### **Non-uniformity of Master Data**

**7.11** For the sake of data integrity, the master data covering various modules of the application software must be uniform throughout the organisation. During data analysis it was found that as the Master data relating to various schemes was branch specific, the Master Data under similar application modules varied from branch to branch. Due to absence of a centralised codification process for master data, the data base of the Bank was fragmented and standardisation and consolidation of branch data at any point of time may become difficult. The creation of master data codes and nomenclature had been left to the System Administrators, with the result that the codification had been done selectively. Also, the number of interest codes pertaining to a scheme varied and even the rates of interest and their effective dates against an interest code and its corresponding interest version also varied in some cases eg. Interest rate revision with effect from 1 July 2004, had been given varied treatment by the branches. This had resulted in branches not passing the benefit of increase in interest rates to its customers. Similar treatment of other circulars issued by the Bank from time to time could not be ruled out and there is a need to have a thorough checking of master tables so as to update them and bring uniformity among the branches.

#### **Branch specific observations**

**7.12** Some branch specific application/data related deficiencies as noticed by Audit are as follows:

- Interest calculation frequency (i.e. monthly, quarterly and yearly) settings for various loan account schemes varied from branch to branch.
- In case of one of the test checked branches (R.S Pura, Jammu, October, 2005), it was revealed that a single account number viz., a/c No 25SB1000 existed against 156 customers and another a/c No 25SB10001 existed against another 370 customers. Similar instances of data entry errors exist in Bari Brahmana, Canal Road, and Talab Tillo Branch, Jammu. The Management stated that the system would not allow any operations on accounts having duplicate account number as per the unique field. However, the fact remains that erroneous entries in the Account Number field adversely affect the data integrity.
- Accounts opened under various schemes were not classified under the proper GL Sub Head codes. For e.g., accounts opened under Saving Bank (General) Scheme should appear under GL Sub head code 04010 and Saving Bank (staff) should appear under GL Sub head code 04040. However, in practice these accounts were misclassified and accounts pertaining to General were opened under staff account category and vice-versa. This trend was noticed across branches and across other account types. Misclassification has the effect of wrong MIS generation and incorrect depiction of figures under various heads of accounts.

- In Finacle branches, it was observed that Account ID field has been made unique across the bank and various object relations were dependent on this field. It had, however been observed that the codification for this field was not uniform across the Finacle (CBS) branches. In respect of two Finacle branches (Ansal Plaza, New Delhi and Kachhi Chawni, Jammu) the code was prefixed with two characters viz., “AP” and “KJ” and as such the code numbering is like “AP1000”, “AP1001” and “KJ1000”, “KJ1001” etc, whereas in case of Gangyal, Jammu branch the code was made by prefixing the Unique branch code i.e., 116 instead of two character branch code, and as such the pattern of Gangyal reads “1161000, 1161001 etc. This shows that there was no uniformity despite these being in a centralised database.

It was also observed during audit that the data feeding in case of Gangyal branch, had been erroneous with the result, in account ID instead of prefixing the codes with 116, the code has been prefixed with “161” (the code of Anantnag branch). The Management stated (June 2006) that account ID field was system generated and that there was no manual intervention.

The reply is not tenable because the branch identifier code for each branch is fed manually and not system generated, which is subsequently reflected in the accounts ID field.

- The system was not generating interest on two Secure overdrafts and fifteen housing Loan Accounts in Shalamar Road Branch and one Secure overdraft in Shakti Nagar, Udhampur.

## **8. Planning and Organization**

### **IT Steering Committee**

**8.1** In order to ensure effective and efficient implementation of computerisation of its functions, the Bank should have formed an IT policy and appointed an IT Steering Committee to oversee its implementation. Audit observed that the Bank had neither formulated any IT Policy nor appointed any Steering Committee when the process of Computerisation started in 1993. However, an IT Committee of the Board was set up in January 2004.

The Management stated (November 2006) that various committees had been ‘formulated’ in which departments were generally headed by the Senior or Top Management. The reply is not tenable, as these committees were formed temporarily for carrying out specific tasks and were subsequently dissolved on completion of the tasks. Not appointing a Steering Committee led to poor planning and inefficient execution of the computerisation process as discussed in the succeeding paragraphs.

### **Inadequate long and short term IT Planning**

**8.2** In pursuance of Rangarajan Committee's recommendation for automation of Bank branches, the Bank initiated computerisation in 14 branches during 1993 by entering into a turnkey agreement with Nelco for supply and installation of Hardware & Software. During 1995, the Bank carried out automation of 24 additional branches through HCL for hardware and Kale Consultants for software. In July, 1996, the Bank selected Bancs 2000 software from Infosys Technologies Limited for uniform adoption at all the branches.

During audit, it was observed that the Bank had not formulated any long term strategy or planned its business requirements properly before computerisation. The Bank procured the above mentioned software from two agencies (Nelco and Kale) without assessing its needs and also without any formal market survey. These software provided only Front Office automation and were not a Complete Banking solutions. Bancs 2000 software adopted for total branch automation in 1996 had already been launched by Infosys and was running in various Banks (e.g. Canara Bank) since 1993. Had the Bank conducted a proper survey before launching computerisation, it could have saved infructuous expenditure of Rs. 1.40 crore on purchase of software which could not be utilised after the Bank adopted Bancs 2000 software. Besides, the hardware costing Rs. 1.32 crore procured from HCL (1995) for this purpose could also not be used when Bancs 2000 was installed by the Bank (1996) as it comprised dumb terminals which had to be replaced by new hardware.

The Management stated (June 2006) that all the applications at that time had similar features and it was very difficult to predict which Company shall grow. The reply is not tenable as Complete Bank Automation Solutions were available, whereas, the Bank opted only for partial automation. Besides, the Bank should have sought expertise from outside if it did not have in-house expertise. The Management further stated (November, 2006) that Bancs 2000 software from Infosys was the costliest at that time and therefore it had opted for low cost Kale and Nelito (Nelco) applications. Audit, however, noticed that the Bank having acquired Bancs 2000 from Infosys within a few months in 1996, indicated that it had not properly assessed its software requirements and business needs before hand, with the result that the software purchased from Kale and Nelito had to be replaced by Bancs 2000 with resultant massive financial and human resource investment which reflects lack of planning.

### **Under-utilization of software modules**

**8.3** As on November 2006, the Bank had 240 branches on Bancs 2000 software. The software provides 10 modules which each computerised branch has to make use of for an efficient customer delivery system.

It was observed during audit that the Bank had not ensured complete computerisation of each branch. Instead, it had embarked on large scale computerisation of all the branches without utilising all the modules of the software. In all, only 72 per cent of the software was being utilised by these branches.

The Management stated (June 2006) that the licence was not procured module wise and that they had prioritised the module as per branch needs. The reply is not tenable as 20 inspected branches did not have all customer signatures scanned with the result they had to depend on old system of signature cards for verification.

#### **Unplanned Data Centre location**

**8.4** In June 2001, the Bank leased an accommodation of 6,018 sqft. in a multistoried building at Gurgaon for setting up of Data Centre as a prerequisite for shifting to Finacle application. Later the Bank (November, 2001) re-assessed its requirement as 8,500-9,000 sqft. which was not available in this complex. The Bank vacated the premises in April 2002 after paying an amount of Rs. 11.55 lakh and shifted (June, 2004) the Data Centre within the same building where it is functional now.

It was observed during audit that the Bank had not conducted any technical feasibility study for its space requirement and location for setting up the Data Centre. It had initially set up a makeshift Data Centre at New Delhi with only a small end server, where site security was inadequate. The Management stated (September, 2004) that it did not possess technical know-how and requisite expertise to determine space requirement for a Data Centre. The reply is not tenable as the Bank should have assessed its requirements by hiring technical professionals or opted for a turn key project. Delay in setting up of a well-equipped Data Centre also delayed the migration of Branches from Bancs 2000 to Finacle. Between June 2003 and August 2004, only 30 branches could switch over to Finacle due to a small end server being used in the New Delhi Data Centre site. In addition, during this period Bank's data remained at risk.

#### **Defective manpower management**

**8.5** Based on the identified needs, the Management should have planned a training curriculum for each group of employees before computerisation of branches. It was observed during audit that in 12 out of 20 inspected 'Bancs 2000' branches, 78 *per cent* staffers were not fully trained to handle various modules of Bancs 2000 application, with the result that activities like application of incidental charges, minimum balance charges, identification of inoperative accounts, generation of asset classification reports etc. were being done manually despite availability of application support for these activities. (Bari Brahmana, Fruit Complex, Jammu Shakti Nagar, Udhampur).

Audit observed that in nine out of 12 test checked branches, the staff designated as System Administrators were unable to work independently. Even in case of minor system problem they have call their respective EDP cells for help, which resulted in customer inconvenience.

The Management stated (May 2006) that 4,191 and 967 officers / staffers were trained in handling Bancs 2000 and system administration respectively. The reply is not tenable as nine branches did not have any trained Systems Manager and 12 branches did not have all the staffers trained in Bancs 2000, even though the Bank had sufficient number of trained personnel.

Lack of trained personnel in the computerised branches indicates defective manpower planning and deployment resulting in risks to IT Systems and data.

### **Inadequate succession policy**

**8.6** The Bank had not adopted adequate control procedures for termination and proper succession for crucial positions. This is evident from the fact that the most critical Data Centre of the Bank remained without a Head for more than two and a half months and the outgoing head left behind no workflow note, project status reports, processes notes etc. thus leaving the entire Data Centre in jeopardy.

## **9. Acquisition and implementation**

### **Non-competitive purchases**

**9.1** In October, 1998, out of four Companies which had quoted prices for supply of hardware, the Bank short listed three Companies viz. Zenith, HCL and Wipro for supply of hardware. As per the evaluation of financial bids, Zenith quoted lowest rates followed by HCL and Wipro. Instead of placing orders on Zenith, the Bank empanelled HCL and Wipro for supply of Hardware. It was observed during audit that the Bank incurred extra expenditure of Rs. 35.31 lakhs in purchase of 115 servers due to rejection of the lowest tender.

The Management stated (February, 2006) that Zenith was rejected on the basis of opinion of an expert committee appointed by the Bank which had recommended that only hardware vendors with a global presence should be empanelled. The reply is not tenable as Zenith was again empanelled by the Bank for hardware supply in 2004. This indicates inconsistency in procurement policy of the Bank.

Similarly in 2001 of the five vendors, the Bank short listed and empanelled three vendors – HCL, Wipro and Compaq. The lowest tender of HCL was rejected. Second highest bidder Compaq, though empanelled did not respond leaving Wipro the sole supplier. Instead of retendering, the Bank placed orders with Wipro and spent extra amount of Rs. 35.17 lakh in purchase of 205 servers and Rs. 1.03 crore on purchase of desktops during 2002-04. Thus, due to lack of a transparent procurement policy, the Bank suffered a loss of Rs.1.73 crore.

The Management stated (February, 2006) that HCL was not empanelled as the Bank faced problems in earlier supply of hardware during 1996-98. The reply is not tenable because there was nothing on record to show that the Bank had imposed any penalty upon HCL for delayed/short/deficient supply while opening the techno-financial bids.

### **Non-existent mechanism for monitoring price trends and technological developments**

**9.2** In view of the fast changing configuration/specification of hardware and the declining trend in rates in the IT Sector, vendors are bound through proper contract clause to intimate the fall in prices to the client and pass on the benefits either by way of supplying equipment of higher specifications at the same price or at reduced prices. Even though this clause was there in the agreements it was not invoked. Audit scrutiny of supply orders (January, 2002 to May, 2005) further revealed the following:-

- The Bank purchased 196 Wipro Net Power 5,215 W servers (January 2002-February 2004) and 1,786 desktops (April 2002-August 2003) of the same specification at fixed price involving Rs.10.20 crore, when the prices were constantly declining.
- A comparison of rates of test checked 13 servers and 73 desktops purchased during November 2004-May 2005 with DGS&D rates for same models, revealed that the hardware supplied to the Bank was not only costlier by Rs. 7.82 lakh but also of much lower configuration in terms of processor speed, mother board, storage, monitor etc.

Thus, lack of any mechanism for monitoring price decline and technological developments as well as non invocation of contract clause for reduction in prices as per market trend, resulted in the Bank getting older technology at higher prices.

### **Non imposition of penalty**

**9.3** Levying of penalty for delay in the supply of hardware by the suppliers is imperative in view of fast up-gradation of configurations and declining rates. The Bank entered (August 1999) into an agreement with Wipro for supply of hardware. As per the Agreement, penalty equivalent to one *per cent* of order value subject to maximum of five *per cent* was to be imposed on the vendor for delay of one week. This penalty was subsequently (July 2004) reduced to 0.5 *per cent* of the order value for delay of one week and one *per cent* for delay of two weeks.

It was observed during audit that there were delays ranging between 7 and 306 days in receiving the supply from the firms, for which no penalty had been imposed by the Bank. This resulted in non-recovery of penalty of Rs. 21.52 lakh from the firms, resulting in undue benefit to these firms.

The Management stated (November 2006) that sometimes it had given one to two weeks time for delivery of supplies to put pressure on the vendor and that minimum industry standard time for delivery of Hardware is four to six weeks. The reply is not tenable as once the agreement is signed the terms and conditions incorporated in the agreement prevail not the industry standards. Besides, in 54 cases, despite a delay of more than six weeks, no penalty was imposed by the Bank.

### **Procurement of outdated equipment**

**9.4** The Bank purchased (2002) outdated desktops (PIII) worth Rs. 1.03 crore from Wipro Infotech when Pentium-IV (P-IV) desktop with higher configuration were available in the market since year 2000.

The Management stated (November 2006) that the decision of purchasing P-III systems with comparatively lower configuration at cheaper price was taken very consciously to make use of the same in Bancs 2000 environment. The reply is not tenable in view of the fact that the Bank had already taken a decision (2001) of shifting its operations to Finacle where these systems could not be used.

### **Purchase of uninterrupted power supply systems (UPS)**

**9.5** During November 1999, March 2001 and February 2003 the Bank invited tenders, for procurement of UPS. It was observed during audit that the Bank had repeatedly ignored the lowest bidder, even though it had met all the requirements of the NIT. The Bank had placed orders with the highest bidder (Tata Liebert now known as Emerson Network Power-India). Consequently, the Bank incurred an extra expenditure of Rs 72.64 lakh.

The Management stated (October 2006) stated that Tata Liebert was a reputed national brand carrying a price premium. The reply is not tenable as Bank's own records indicate that the Bank had earlier procured much cheaper UPS provided by another vendor which were in use.

### **Extra expenditure on purchase of routers**

**9.6** The Bank had been placing orders on Network Solutions for leased line connectivity, supply and installation of routers, modems and related services, since March 2003. It was observed in audit that on purchase of Cisco routers alone, the Bank had made payment of Rs. 3.17 crore (excluding installation charges) between March 2003 and July 2005. Though this was the biggest IT project of the Bank, open tenders were not invited for selection of vendors. Instead, the Bank called for limited quotations. It was further observed in audit that the bank did not approach the manufacturers of the Cisco Systems. Had it negotiated with the manufacturers, it could have benefitted by substantial discounts.<sup>±</sup> The Bank also failed to monitor the price trend in case of Cisco 1760 routers. It purchased 105 routers of same configuration at the same price for 14 months (April 2004 to May 2005) at a total cost of 1.81 crore, when the prices of hardware were decreasing regularly.

The Management stated (November, 2006) that they had got similar discounts from CISCO and that tendering was resorted to for the networking project, in particular for radio links. The reply is not tenable as it is silent about the exact rate of discount availed from the supplier. Also, the Leased

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<sup>±</sup> Representative of Cisco disclosed in a meeting that they give discount of at least 47 per cent on the list price of the Routers to organizations like J&K Bank.

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Line Project was a later development for which fresh tenders were not invited. Bank made purchases on the basis of limited quotations.

### **Unfruitful expenditure on purchase of software**

**9.7** The Bank (May 2004) purchased a third party reporting tool (QWAN software) from Network Solution Limited at a cost of Rs 2.5 lakh for one thousand licenses with the aim of generating six different types of reports on link utilisation, availability and Network downtimes/failures. It was observed in audit (June 2006) that against 1000 licenses ordered for, the company could supply only 500 licenses. Besides, a scrutiny of Event and Trend logs of the software, at Data Centre revealed that the software was not able to generate the desired reports.

The Management stated (November 2006) that some of the reports were being generated and during on site audit, the reports could not be generated because of hardware problems. The reply is not tenable in view of the fact that the as per the log book QWAN had not generated any report since February 2006.

### **Avoidable liaisoning charges**

**9.8** The Bank had been placing orders on Network Solutions for supply and installation of networking equipment since March 2003. For leased lines connectivity, the Bank makes payment of lease rent to BSNL/MTNL, responsible for commissioning and maintenance of the leased lines, without any extra cost. It was observed in audit (September 2006) that in addition to the cost of hardware and its installation, the Bank had also been paying liaisoning charges to the firm for providing mediatory services for commissioning and maintenance of Leased Lines by BSNL/MTNL. It was further observed that during March 2003 to March 2006, the Bank had paid an amount of Rs. 65.04 lakh<sup>γ</sup> to the firm on account of liaisoning charges. Had the Bank approached BSNL/MTNL directly, without intervention of the firm for such liaisoning, the expenditure of Rs. 65.04 lakh could have been avoided.

The Management stated (November 2006), that paying liaisoning charges is the industry practice. The reply is not tenable as the Management could not produce any documentary evidence in support of its reply.

### **Delay in Installation of Automated Teller Machines (ATMs)**

**9.9** The Bank placed orders with a private firm<sup>∞</sup> for supply and installation of ATMs at its various branches and off sites. According to the terms and conditions of the supply orders, warranty was to remain effective for 15 months from the date of delivery or for 12 months from the date of installation, whichever was earlier. The terms of the order also provided for payment of 25 *per cent* of the order value in advance, 65 *per cent* on installation or successful running of the machines and the balance 10 *per cent* against Bank Guarantee.

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<sup>γ</sup> Liaisoning charges: Rs. 22.56 lakh; Maintenance charges: Rs. 42.48 lakh

<sup>∞</sup> Diebold Systems Private Limited

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It was observed during audit that 51 machines supplied by the firm between October 2000 and May 2004, were installed during March 2001 and August 2005, after delays ranging between 4 and 18 months from the respective dates of delivery. As a result, the Bank lost warranty cover for periods ranging between 25 to 365 days, on these machines. Consequently, the Bank incurred a loss of Rs. 12.46 lakh equivalent to the Annual Maintenance Contract charges. Belated installation of the machines also resulted in non-accrual of the envisaged benefits of investment of Rs. 3.17 crore (90 per cent of the order value paid up to the delivery date) during the period of delay. Had the Management arranged timely installation of the equipment (within three months from the date of delivery), it could have availed the benefits of the warranty for a period of 12 months, and would also have avoided the said loss.

It was further observed in audit that in contravention of the terms and conditions of the supply order the Bank, in most of the cases had released 65 per cent of the order value on delivery of the machines instead of after installation, apart from payment of 25 per cent of order value made in advance while placing the order.

### **Installation and upkeep of under performing Automated Teller Machines**

**9.10** The Bank installed its first ATM in the year 1997 and as on October 2006, the number of ATMs of the Bank stood at 173. To justify its installation, an off-site ATM must have 148 hits per day (about 4,500 per month) to break even with manual transactions and like wise an onsite ATM must receive 68 hits per day (about 2,000 per month). A cost-benefit analysis of ATMs revealed (January 2006) that 26 ATMs (13 On-site and 13 Off-site) out of 173 were non viable as the average hits at these ATMs varied from 24 to 154 per month during the period from March 2005 to November 2005, which were inadequate to justify their installation. Besides, 11 out of 13 offsite ATMs were located at Delhi where the customer base of the Bank is comparatively smaller.

The Bank had not (June 2006) carried out any analysis with regard to justification of continuing these ATMs, with the result, that in addition to set up costs, the Bank had been incurring recurring costs in the form of maintenance, rent, security etc. An estimated amount of Rs. 3.32 crore had been spent by the Bank on these ATMs without any corresponding benefit to the Bank.

The Management (June 2006) admitted the audit contention and indicated that all non-viable and low transaction ATMs are being shifted and installed at newly identified sites.

### **Delayed and partial launch of e-Banking Project**

**9.11** The Bank entered into an agreement with Infosys Ltd., (December, 2003) for acquisition of software for implementation and launch of Internet and SMS Banking facilities at a total project cost of Rs 1.05 crore. The terms of the agreement provided for payment of 60 per cent on signing of the agreement and 40 per cent on the project going live. As per the agreement, the software was to have four modules viz., (1) Finacle e-channels with five sub-

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modules, (2) Finacle e-corporate with two sub-modules, (3) Finacle e-channel SMS Banking, and (4) Finacle Alert Server. The project cost included the pilot implementation charges, core team education, security counseling etc.

It was observed in audit that the Bank had made a payment of Rs 64.78 lakh to the vendor in two instalments of Rs. 46.55 lakhs in August 2003 and Rs 18.23 lakh in March 2005, but the actual launch of the service had taken place only in June 2005. Besides, delay in actual implementation and launch of the service, three out of four modules were not functional as of June 2006. This has resulted in the Bank not reaping the benefits of e-Banking from this project even after spending an amount of Rs 64.78 lakh.

The Management stated (June 2006) that the project got delayed as the issue remained pending with RBI for their permission. The reply is not tenable as a timely action for obtaining RBI permission could have avoided the delay.

**IT Assets Inventory Management**

**9.12** The Technology and Information System Department, at Corporate Headquarters of the Bank which places centralised purchase orders in respect of all the hardware and software had not maintained a centralised consolidated inventory of the hardware and software provided at branch level to enable control over the custody and movement of inventories.

In pursuance of Corporate Office instructions, the branches were instructed to exercise comprehensive control over physical inventory of hardware by marking each item of inventory in paint with numbers/codes which should be entered in the furniture fixture register. It was, however, observed that in most of the branches this had not been done.

None of the branches audited (26) had maintained a verifiable record of movement of damaged inventories in and out of the branch in contravention of the instructions of the Corporate Headquarters. A test check of records (September–December 2005) revealed that inventory worth Rs 46.87 lakh was lying unutilised in various branches indicating lack of control over inventory and utilisation at the branch level.

<b>Name of the Branch</b>	<b>Value of hardware (Rs in lakh)</b>	<b>Remarks</b>
Akhnoor	19.43	Unused between June 2003 & August 2005
	10.09	Unused Since August 2005
Sohal	8.48	Unused Since June, 2003 to October 2005
Miran Sahib	2.59	Unused July 2004 to Feb, 2005
Sidhra	3.87	Un-accounted storage
Canal Road	2.41	Unused Since three years (July 2003 to October 2005)
<b>Total</b>	<b>46.87</b>	

- None of the branches test checked in audit, had conducted a physical verification of the hardware/software in their custody/use.

## **10. Conclusions**

**To sum up, the implementation of IT in the functioning of the J&K Bank indicated mixed results. No doubt, there were some benefits from computerisation, however, full potential of computerisation could not be realised due to deficiencies in implementation. Lack of adequate planning was visible in almost all areas of implementation. The Bank had not formulated any long term IT strategy and planned its business requirements before initiating computerisation.**

**The Bank's security policy was not widely disseminated, which resulted in absence of physical security measures, password deficiencies and poor back up controls. Network Security of the Bank was inadequate putting the entire system and network at risk. The Bank did not have any Business Continuity Plan or any Disaster Recovery Site which is a pre requisite for Core Banking Solution Operations.**

**The Bank did not ensure correct population of the database. Its database was incomplete and unreliable on account of several deficiencies noticed in the database.**

**The Bank did not have any robust and transparent acquisition policy resulting in non-competitive purchases and adhoc procurements. There was also no mechanism for monitoring price trends and technological developments in the field of IT where the technology is upgrading at a fast pace. This had resulted in uneconomical purchases of hardware of lower specifications, a few of which had to be upgraded subsequently.**

## **11. Recommendations**

**The Bank should take immediate steps to: -**

- lay down a well-defined IT policy, the implementation and monitoring of which should be assigned to an IT Steering committee;
- incorporate General and Network Security Controls at its Data centre;
- focus on effective training of personnel in computerised environment and efficient use of trained manpower;
- consider shifting/relocation of non-viable ATMs ;
- draw out a time bound programme for updation /correction of entire database ;
- ensure logical closure of all zero balance accounts and identified cases where non-logical closure of these accounts leads to system generating

interest on these accounts;

- upgrade inoperative accounts to dormant or unclaimed accounts as the case may be;
- improve control over physical inventory of hardware.

The matter was reported to the Government (October 2006); reply is awaited (November 2006).

**Srinagar/Jammu**  
**Dated:**

**(GHAZALA MEENAI)**  
**Accountant General (Audit) J&K**

**Countersigned**

**New Delhi**  
**Dated:**

**(VIJAYENDRA N. KAUL)**  
**Comptroller and Auditor General of India**

**Appendix-1**

*(Reference: Paragraph 2; Page 5)*

**List of Branches visited during audit.**

**Branches with Bancs 2000 Application.**

1. Akhnoor.
2. Bakshi Nagar.
3. Bari Brahmana.
4. High Court Complex Jammu.
5. Janipur.
6. Canal Road.
7. Patel Nagar.
8. Shalamar Road.
9. Medical Collage Jammu.
10. Talab Tillo.
11. Shakti Nagar Udhampur.
12. Katra.
13. Rehari.
14. New University Campus Jammu.
15. Fruit Complex Narwal.
16. Miran Sahib.
17. R.S. Pura.
18. Siddhra.
19. Town Hall Jammu.
20. Tikri Udhampur.

**Branches with Finacle Application.**

1. Kachi Chawani.
2. Gangyal.
3. Chandni Chowk Delhi.
4. Ansal Plaza New Delhi.
5. Rajendra Place New Delhi.
6. Air Cargo Srinagar.