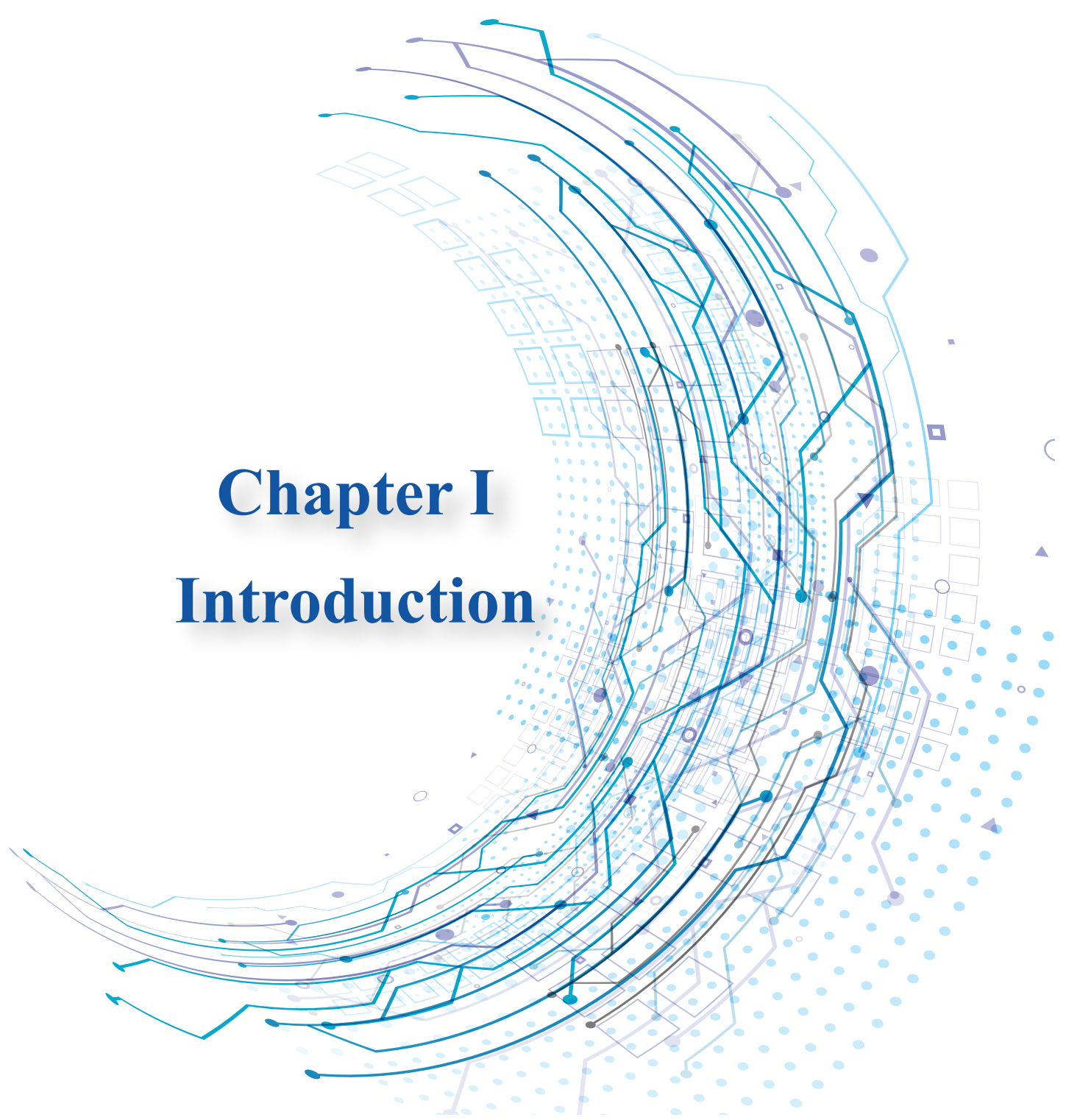


Chapter I

Introduction





1.1 Need for *Khajane-II*

The Government of Karnataka implemented '*Khajane*' (hereinafter referred to as K1) – an Information Technology (IT) platform for computerization of Treasuries from 2001. The State Government decided (2009) to upgrade K1 into an Integrated Financial Management System¹ (IFMS) known as '*Khajane II*' (hereinafter referred to as K2). K2 proposed to use latest web-based technologies with electronic interface with the citizens. It also proposed to electronically integrate with external stakeholders like bank, Accountant General *etc.*

The K2 project aimed to:

- facilitate the State's development through efficient, effective and transparent management of its public finances, strengthen accountability of the stakeholders;
- provide an integrated electronic platform to all stakeholders, to carry out their financial transactions and to share data in a seamless manner, for their decision making, accounting and auditing of public finance;
- to provide tighter security of data and audit trail of all activities carried out within the system;
- To bring greater transparency in treasury functions along with participative accountability.

Thus, it was envisaged that K2 will replace the existing challenges of K1 system² and address functional and technical constraints so as to enable a dynamic fiscal management for all users within and outside the Government.

1.2 System Integrator for K2

The State Government entrusted (October 2011) the implementation of the project to M/s Tata Consultancy Services (TCS), which was identified as the System Integrator (SI) through a tendering process. The scope of the work included Application Software Development, providing IT Infrastructure for the Application, data migration, end user training and Operation and Maintenance

¹ Integrated Financial Management Systems are systems to support management of public sector budgetary, financial and accounting operations and promote better public sector financial management with a centralised registry of public sector revenues and expenditures. The IFMS integrates budgetary, accounting and treasury and public debt management processes as well as generate corresponding reporting documents.

² K1 was designed in the year 2001 with limited technical capabilities and connectivity. It had various security gaps in the application; it was not capable of handling the workload requirements and was based on limited bandwidth system; it could render only monthly accounts but not daily accounts, *etc.*

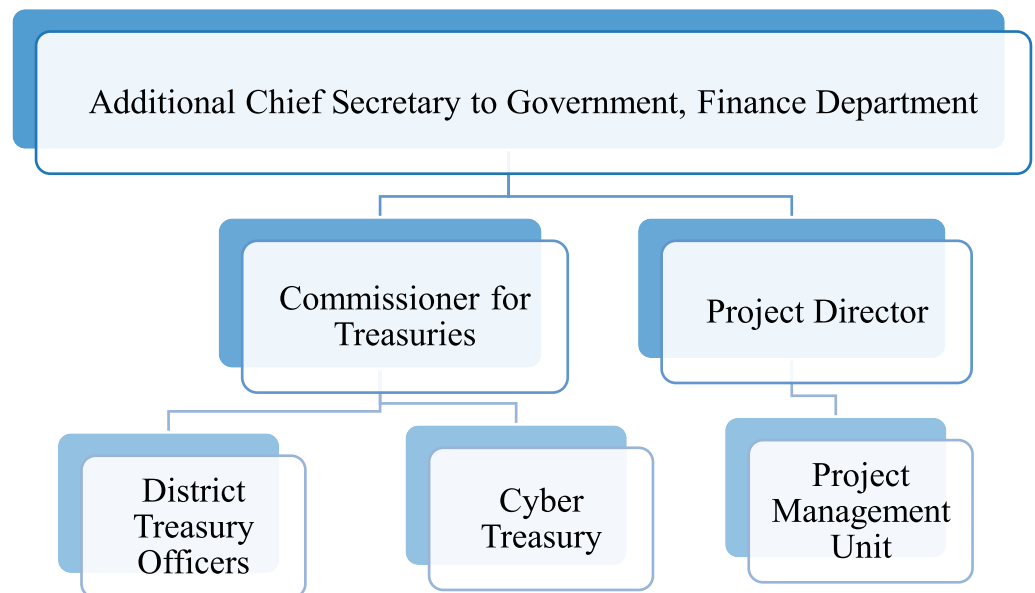
(O&M) of the System. The SI would establish the system and provide O&M support for six years.

1.3 Broad technical features of K2

K2 is a web-based application with two separate user portals over the internet and intranet. The internet portal acts as a web interface for delivering citizen centric services and the intranet portal is for the department users and acts as a single platform for all application services. Users are provided access to the services based on their roles after due authentication and authorisation. Karnataka State Wide Area Network (KSWAN) is used for providing connectivity to the treasuries of the State Government.

1.4 Organisation structure

The Additional Chief Secretary (ACS) to Government is the administrative head of the Finance Department (FD). The Department of Treasuries (DoT) headed by the Commissioner for Treasuries, which functions under the FD and manages the accounts of the Government, is responsible for implementation of K2 Project. The Project Director oversees the implementation of the Project and is assisted by a Project Management Unit (PMU) for day-to-day operations. The contractual obligations of the System Integrator are monitored by the Project Director in accordance with the terms of the Master Service Agreement (MSA).



1.5 Audit objectives

The Performance Audit (PA) sought to ascertain whether:

- The Project realised the envisaged objectives of automating the treasury functions and integrating them with the stakeholder applications;
- The Business Rules embodied in the various rules and codes of the State were incorporated in the K2 Application;
- Information system controls in K2 Application were capable of safeguarding assets, ensuring data integrity and provided for secure and uninterrupted treasury operations; and

- K2 Application contributed to improving the effectiveness and efficiency of Government's financial operations.

1.6 Audit criteria

The audit objective-wise criteria for PA were derived from the following:

- ✓ Karnataka Treasury Rules and Government of India guidelines on Computerisation of Treasuries;
- ✓ Karnataka Financial Code and Karnataka Budget Manual;
- ✓ The Master Service Agreement and the General Principles of Information Systems Governance, Development and Maintenance;
- ✓ Vision and Mission of the Project.

1.7 Audit scope and methodology

The PA for the period 1 April 2015 to 31 March 2020 was conducted during February 2020 to December 2020. Six³ out of 12 modules in operation as of March 2020 were selected for detailed check. The audit methodology involved the following:

- i) Document analysis relating to project implementation;
- ii) Analysis of the Application Controls and User Interface;
- iii) Analysis of the Master Service Agreement, Service Level Agreements;
- iv) Analysis of databases using data dumps provided;
- v) Analysis of network performance, security controls.

An entry conference was held on 6 July 2020 with the Additional Chief Secretary, Finance Department in which the audit objectives, methodology, scope and criteria were explained. An exit conference was held on 26 October 2021 with Finance Department. The report takes into consideration the replies of the Government and the views expressed in the exit conference. In view of the Government replies, the PA has been updated till March 2021.

1.8 Acknowledgement

Audit acknowledges the cooperation and assistance extended by the State Government, Treasury Network Management Centre (TNMC) and staff of TCS in conducting the PA.

³ Bill Preparation and submission, Bill Processing, Payment Authorization, Accounting, Budgetary Control and General Module-Master Data Management.

1.9 Organisation of audit findings

The audit findings are organised as follows:

Chapter 1 – Introduction

Chapter 2 – Project Management

Chapter 3 – Project Implementation

Chapter 4 – Project Security

Chapter 5 – Monitoring and Evaluation

Chapter 6 – Conclusion and Recommendations