



RAMKRISHNA FORGINGS LIMITED

14th June, 2025

To
The Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

To
The Listing Department
National Stock Exchange of India Limited
"Exchange Plaza" C-1, Block G,
Bandra-Kurla Complex, Bandra (E),
Mumbai- 400 051

BSE SCRIP CODE: 532527

NSE SYMBOL: RKFORGE

Dear Sir/Madam,

Sub.: Outcome of Board meeting - Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015

This is to inform that the Board of Directors of the Company at their meeting held today i.e. 14th June, 2025, has inter alia, noted the joint fact-finding report, submitted by CLA IVC LLP (erstwhile Baker Tilly Private Limited) and Salarpuria & Partners ("Joint Fact Finding Report"). The Joint Fact Finding Report was initiated by the Audit Committee of the Company to address the concerns regarding discrepancies in inventory balances and stock accounting at Company's manufacturing plants.

Details as required under Schedule III Part A of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 are attached as **Annexure I**. The Joint Fact Finding Report, summary, is attached as **Annexure II**.

The meeting of the Board of Directors commenced at 5:30 pm and concluded at 6:45 pm.

You are requested to take the same on record and treat the same as compliance of applicable SEBI Regulations.

We request you to take the afore-mentioned information on record and oblige.

Thanking you,

Yours faithfully,

For Ramkrishna Forgings Limited

Rajesh Mundhra
Company Secretary & Compliance Officer
ACS: 12991



Enclosed: As above



REGISTERED & CORPORATE OFFICE

23 CIRCUS AVENUE, KOLKATA 700017, WEST BENGAL, INDIA

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CIN NO. : L74210WB1981PLC034281



Annexure I

Details as required under Schedule III Part A of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015

The joint fact-finding report was initiated by the Audit Committee of the Company to address the concerns regarding discrepancies in inventory balances and stock accounting at Company's manufacturing plants, which was intimated to the stock exchanges on 26 April 2025, pursuant to regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The decision to make the aforesaid appointment was taken by the Audit Committee in the interest of ensuring transparency, accountability and adherence to the highest standards of Corporate Governance and to mitigate future recurrence of such nature.

The Board of Directors at its meeting held today i.e. 14th June, 2025, noted the report submitted by CLA IVC LLP (erstwhile Baker Tilly Private Limited) ,Salarpuria & Partners and CLA IVC Private Limited (as attached) in the aforesaid matter. The report was first placed before the Audit Committee meeting held today for its observations and thereafter placed before the Board for noting.

The joint fact-finding report was conducted by Salarpuria & Partners Chartered Accountants and CLA IVC LLP (erstwhile Baker Tilly Private Limited) and covered physical inventory (including scrap) & inventory lying with third party processors, to identify any shortages / excesses compared to the recorded stock, along with the reasons for the discrepancies & stock reconciliation, fact finding analysis and primary reasoning, primarily for the financial year 2024-25, with retrospective checks into previous periods to the extent possible. CLA Indus Value Consulting Private Limited was further engaged to conduct Imaging of Devices, interviews of custodians related to SAP entries.

The broad observations in the report cover (a) inventory control (b) internal control over inventory (c) GST reconciliation (d) bank statement analysis (d) related party transaction (e) GST reconciliation (f) Physical verification forensic imaging of devices and (f) interviews of custodians related to SAP entries.

The joint fact-finding report confirmed that certain erroneous entries/non recording of rejections at Plants resulted in overstatement of WIP/Raw Material/Scrap Inventory as at 31 March, 2025 and as at 31 March, 2024 valued at Rs. 22052.43 Lakhs and Rs. 5022.26 Lakhs respectively. The approximate adverse impact (net of tax) on the Net Worth of the Company would be around Rs. 20260 Lakhs (6.73% of the Net Worth of the Company as on 31 March, 2025). Such shortage has been recorded in the Financial Results for the Quarter and Financial Year ended 31 March, 2025 and 31 March, 2024.

We would further like to mention in the outcome that there is no further financial impact required on account of the final Joint Fact Finding Report.

The management has taken cognizance of the observations made in the report. The management will be taking appropriate disciplinary actions on the concerned employees for the same. Further, the internal controls and all the above processes are being tightened and all the manual intervention has been restricted/ regulated.

Further, the management is in the process of appointing an external SAP consultant / other Consultant to review the existing production process in SAP and recommend actions to be taken, towards strengthening controls and streamlining SAP processes. We expect this to be completed over the next 4-6 months.

We trust the disclosure as provided in this document provided necessary information as required under applicable SEBI regulations. The management has initiated appropriate steps to strengthen the governance & controls and to leverage IT capabilities to further drive efficiencies. The Company is committed to uphold highest standards of corporate governance and to protect the interests of its stakeholders.



Annexure II

Final Joint Fact Finding Report (Summary)



REGISTERED & CORPORATE OFFICE

23 CIRCUS AVENUE, KOLKATA 700017, WEST BENGAL, INDIA

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CIN NO. :L74210WB1981PLC034281



EXECUTIVE SUMMARY OF FACT-FINDING REPORT - RAMKRISHNA FORGINGS LIMITED

Date – 14th June 2025

Private and Confidential

COVERING LETTER

To,

14th June'2025

The Audit Committee
Ramkrishna Forgings Limited
23, Circus Avenue
Kolkata - 700017

Subject: Submission of Fact-Finding Report for Ramkrishna Forgings Limited.

Dear Sir,

We are pleased to forward herewith the Fact-Finding Report for Ramkrishna Forgings Limited conducted as per the given scope for your kind perusal.

Our Services were performed, and this Report of findings ("Deliverable") is prepared in accordance with the Engagement Letter ('EL' or 'contract') dated 30th April 2025, between Ramkrishna Forgings Limited ('RKFL' or 'Company' or 'you') and CLA Indus Value LLP and Salarpuria & Partners ('CLA IVC LLP'/'S&P' or 'we' or 'us') and is subject to the terms and conditions included therein, and also Engagement Letter dated 22nd May 2025 for providing Digital Data Analysis for Fact Finding Services to CLA Indus Value Consulting Pvt Ltd ('CLA IVC PL').

Our work was limited to the specific procedures and analysis described herein and was based on information compiled through 13th June 2025. Accordingly, changes in circumstances or information newly available after this date could affect the findings outlined in this Report of findings.

This Report of Fact Finding is prepared solely for your information and is intended for distribution only to RKFL and may not be relied upon by other parties ('Third Party'), except as mentioned in the Engagement Letter and Addendum Letter. Neither this Report of findings nor its contents may be distributed to, discussed with, or otherwise disclosed to any Third Party, except as mentioned in the Engagement Letter and Addendum, without the prior written consent of CLA IVC LLP, CLA IVC PL & S&P. We accept no responsibility or liability to a Third Party to whom this Report of findings may be shown or in whose hands it may come.

We appreciate the opportunity to assist you with this matter. If you have any questions or would like to discuss this Report of findings, please do not hesitate to contact us.

Regards,


Rohit Bhageria, Partner
CLA IVC LLP


Palash K Dey, Partner
Salarpuria & Partners
Chartered Accountants
UDIN : 25053991BMKUYY2771

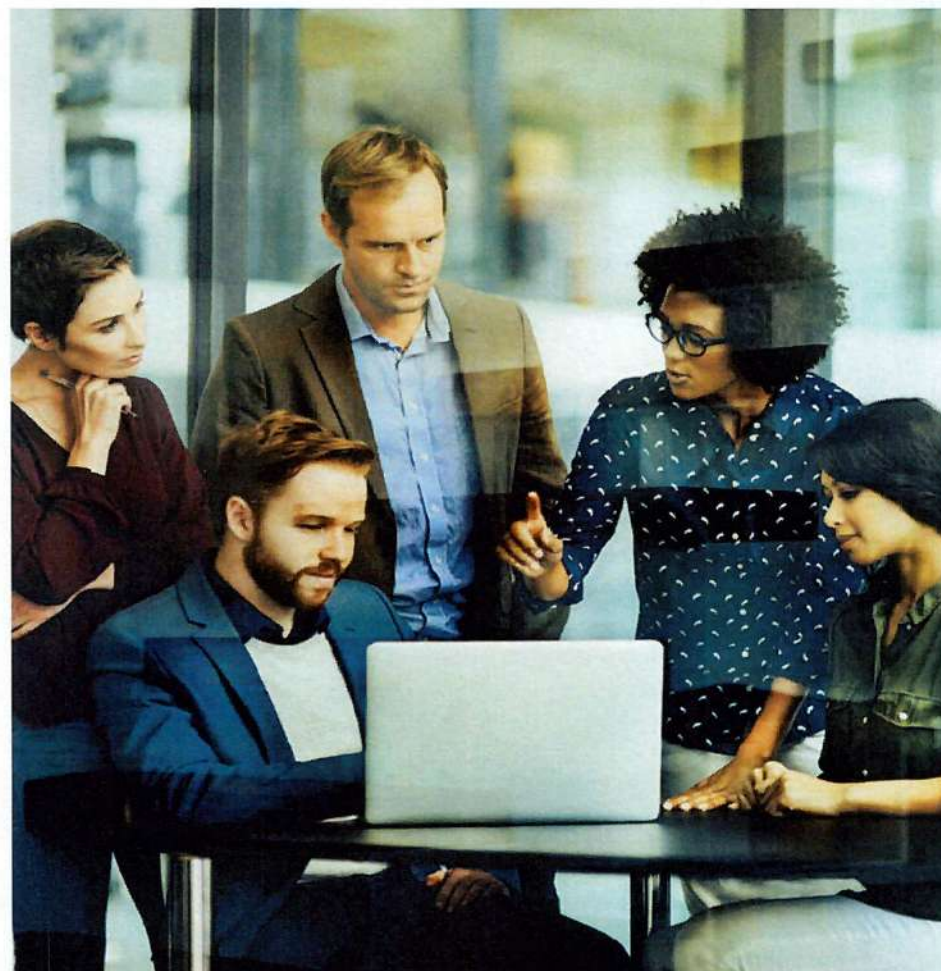

Rohit Bhageria, Director
CLA IVC Private Limited

GLOSSARY

Abbreviation	Meaning
RKFL	Ramkrishna Forgings Limited
CLA IVC LLP	CLA Indus Value Consulting LLP
CLA IVC PL	CLA Indus Value Consulting Private Limited
S&P	Salarpuria & Partners, Chartered Accountants
RM	Raw Material
SFG	Semi Finished Goods
FG	Finished Goods
NA	Not Applicable
Approx	Approximately
Cr	Crores
SD	System Deficiency
PD	People Deficiency
OD	Operational Deficiency
SN	Serial Number
STD	Standard
BOA	Books of Accounts
BOM	Bill of Material
MT	Metric Tonne
SKU	Semi Knocked-down Unit
Z-Report	Customized SAP Report

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1. BACKGROUND, SCOPE AND APPROACH



BACKGROUND, SCOPE & APPROACH

(1/3)

Background:

- This fact-finding review was initiated by the Audit Committee of RKFL Limited to address the concerns regarding discrepancies in inventory balances and stock accounting at Company's manufacturing plants at Jamshedpur. The fact-finding review was jointly conducted by Salarpuria & Partners Chartered Accountants and CLA IVC LLP and covered review of physical inventory, SAP accounting entries, stock valuation methods, and process loss recognition, primarily for the financial year 2024-25, with retrospective checks into previous periods to the extent possible. Based on preliminary findings CLA Indus Value Consulting Private Limited was further engaged to conduct digital data Imaging, Processing and Review of Computer Devices along with certain custodian Interviews.

Scope and Approach:

Physical verification of inventory at Plant No.1100,1300,1400,1500,1600,1700 & 1710 (including scrap but excluding stores) & inventory lying with third party processors, to identify any shortages / excesses compared to the recorded stock, along with the reasons for the discrepancies. Stock Reconciliation, Fact-Finding Analysis and Primary Reasoning

- **Review Period :** 1st April 2024 to 31st March 2025

- **Inventory control:** With respect to review of Inventory Control following activities were carried out:

- Examining the inventory records.
- Review inventory management systems.
- Review purchase orders, stock records, procurement requests for manufacturing, other relevant records to identify discrepancies and inconsistencies.
- Review adequacy and functioning of weigh bridges and material unloading (raw materials) and loading (finished goods).
- Review inventories with adequate documentation.
- Review of production process.
- Review material movement from procurement to storage.
- Studying BOM or changes to the BOM and related documents.
- Identifying lapses & errors in data entry, record keeping, or other processes.
- Identifications of Class A SKU items based on quantity & value , covering 80% of entire stock spread across different plants and conducting comprehensive weighments of each SKU falling in such category.

- **Internal Control:** With respect to review of Internal Control following activities were carried out:

- Evaluation of effectiveness of existing internal controls such as inventory security procedures, access controls and record keeping practices.
- Fact-Finding potential suspicious activities such as theft or embezzlements.
- To assess whether there is any unauthorized or suspicious payments to vendors or 3rd party.

BACKGROUND, SCOPE & APPROACH

(2/3)

- **Bank Statement Analysis:** Bank statements were reviewed, and transactions were categorized based on their nature and the same was verified with the books of accounts.
- **Related Party Transactions:** Related Party transactions were reviewed based on list of related parties provided by Ramkrishna Forgings Limited (RKFL) for the year ended March 31, 2025. Our verification focused specifically on purchase and sale transactions between the Company and its related parties.
- **GST Reconciliation:** Reconciliation of the GST returns filed by RKFL with its books of accounts. Reconciliation covered the following aspects:
 - Outward Supplies as per the Dispatch Register (Extracted from SAP) vis-à-vis GSTR- 3B.
 - Input Tax Credit (ITC) as per Input Register (Extracted from SAP) vis-à-vis GSTR- 3B.
- **Physical verification approach:**
 - **Comprehensive Wall-to-Wall Physical Verification:** Conducted a count of all inventory items across the entire plant, covering storage area, workstation, production line to confirm quantities.
 - **Three-Part Card System:** Adopted a tripartite tracking system where each inventory item is recorded on three synchronized cards maintained by different departments to ensure consistent documentation and accountability.
 - **Triad Reconciliation Process:** Assignment of one part of the inventory record to us, one to the PPC Team , and one attached with material . Cross verification of these records to detect and resolve discrepancies.
 - **Majority Verification via Stacking:** Physically stack and count inventory items in an organized manner to confirm quantities, leveraging visual and physical alignment to ensure accuracy during major counts.
 - **Sample-Based Estimation with Stacking:** Select representative samples from stacked inventory, verify their counts, and extrapolate to estimate total inventory, ensuring samples are randomly chosen and sufficiently representative.
 - **Inventory lying with third party processors** - We have covered the stock of third-party processors on sample basis and would rely on sampling methodology to identify top processors for verification as per the above stated methodology.
 - **Size Measurement of Raw Material:** Directly measure the dimensions of steel plates, rounds, billets & pipes to calculate theoretical weight of the selected sample.
 - **Theoretical Weight Calculation & Comparison:** Use of scientific formulas to calculate the theoretical weight of inventory items based on their material properties and dimensions, comparing these to actual weighed quantities to validate records.

BACKGROUND, SCOPE & APPROACH – DIGITAL DATA ANALYSIS

(3/3)

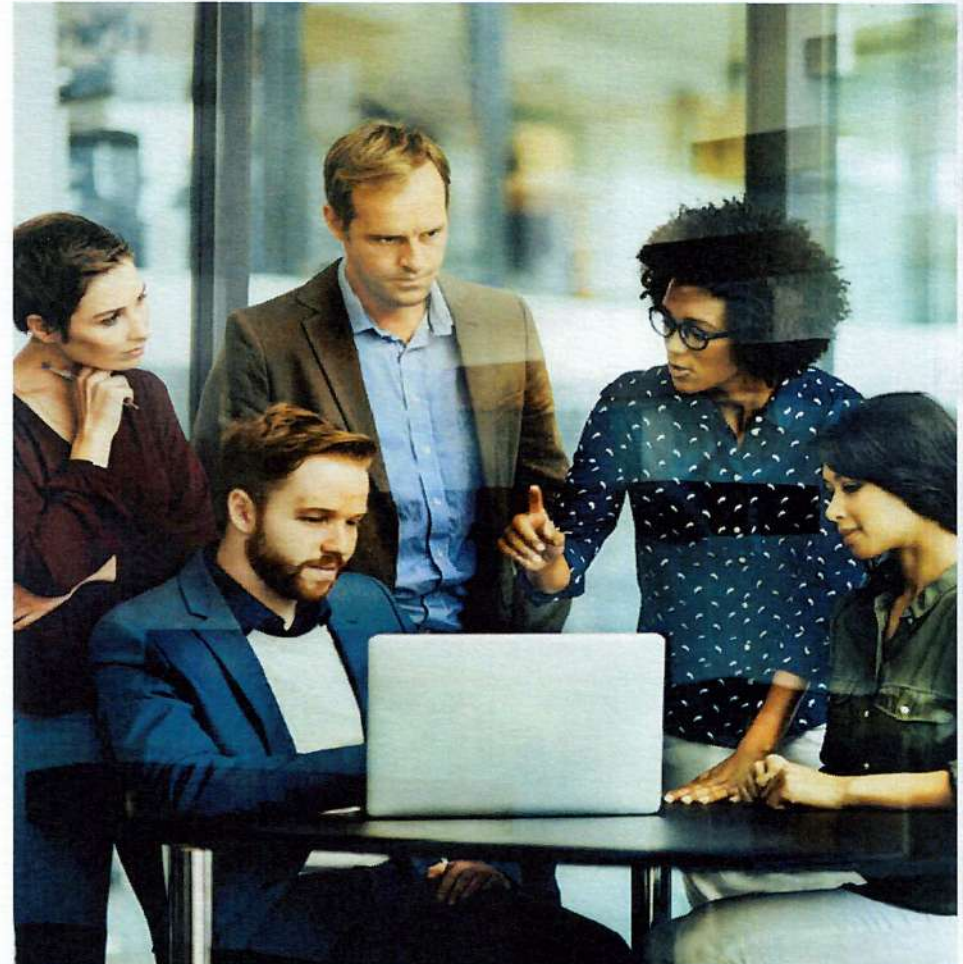
Background:

- CLA Indus Value Consulting Private Limited was engaged to conduct Digital Data Imaging, Processing and Review of Laptops & Google takeouts along with certain custodian Interviews.

Scope and Approach:

- **Review Period** : 1st April 2024 to 31st March 2025
- **Digital Data Imaging of Devices** : Digitally imaged the laptop of identified custodian, attempted to recover deleted electronic documents, undertook keyword-based searches and reviewed electronic documents /items to corroborate the red flags or uncover new information pertinent to the Fact-Finding.
- **Interviews of Custodians related to SAP Entries** : Conducted interviews with identified custodian who have posted specific erroneous SAP entries, and their immediate seniors, CFO and Managing Director were also covered.
- **Digital Data Analysis Approach** :
 - Digital Disk Imaging & Data Collection
 - Processing & Indexing.
 - Custodian Interviews
 - Review & Reporting

2. NOTICE TO READER



NOTICE TO READER

(1/2)

Disclaimers

- This report is based on the data/information/explanations provided by the company further corroborated with SAP System, 3rd Party Confirmations, Physical Verification and Reconciliation, Bank Statements, GST Records etc.
- Our observations are based on the agreed scope and data / information reviewed by us in relation to the scope.
- We have not conducted a detailed review of the operations of the company. Work steps/ observations in our report are based on limited review as of our scope of work.
- The procedures performed under this fact-finding review do not constitute an audit or examination or a review in accordance with generally accepted auditing standards or attestation standards. Accordingly, CLA IVC LLP or S&P will not provide an attestation or opinion or other form of assurance pursuant to generally accepted auditing standards or attestation standards of the Institute of Chartered Accountants of India.
- As it is practically not possible to examine all the aspects of the identified issues during the limited time period available, the outcome of the analysis may neither be exhaustive nor be representing all possibilities.
- It is likely that we have not been provided all relevant information pertaining to identified processes. Our observations are based on information that was made available to us and analysis done by us during the course of our engagement.
- We have relied on the documents, information furnished to us and our observations are primarily based on review of such information. We made specific efforts to verify the accuracy and authenticity of the information gathered only in those cases where we reasonably determined that it was necessary to do so having regard to the scope of our engagement. The work carried out and the analysis thereof, is based on the data, records and statements provided to us.
- Physical Verification of Inventory has been done based on methodology, data analysis, assumptions and may be subject to variance which may range 5-6% on a best estimate basis.
- Should additional information and documents be subsequently available, observations may change, and it may be necessary to revise our findings accordingly. In the absence of such revision, these observations shall be read subject to such additional information and documents, including without limitation any event that may be relevant to the outcome of the observation.
- We have relied on photocopies; scanned copies of documents as provided to us.
- We have relied on sampling methodologies for review as per our scope of work .
- We have not agreed to testify or act as expert witness in any court of law or arbitration tribunal.
- We have not performed security assessment of any software/ application used by client
- We have not identified, addressed or corrected any errors or defects in the computer systems, other devices or components thereof ("Systems"), whether or not due to imprecise or ambiguous entry, storage, interpretation or processing or reporting of data. We will not be responsible for any defect or problem arising out of or related to data processing in any Systems
- We are not responsible for exhaustiveness of information as it is possible that Salarpuria & Partners and CLA IVC LLP might not be able to access all the information. Information search is limited to that available in the public domain and/or provided by the Company.
- Information / observations from searches is based upon information collected from various relevant public domain sources and/or provided by the Company.
- Salarpuria & Partners was not part of Digital Fact-Finding analysis, and they have relied upon the work & reports of CLA IVC Pvt. Ltd..

NOTICE TO READER – DIGITAL DATA ANALYSIS

(2/2)

Disclaimers

- This Report must be considered in its entirety by the reader. Selecting and relying on specific portions of the analysis or factors considered by us in isolation may be misleading.
- Our work was limited to the specific procedures performed and was based on information compiled until 13-06-2025 in preparation of this report. Accordingly, changes in circumstances or newly available information after this date could affect the findings outlined in this Report of findings.
- We have relied on the documents and information furnished to us by the client; and our findings are primarily based on review of such information. We have not conducted independent verification of data and information provided by the client and we are not responsible for the accuracy and authenticity of the information provided. The work carried out and the analysis thereof, is solely based on the data provided.
- Our observations are based on the agreed scope of work and data / information reviewed by us is only in relation to the scope.
- The sufficiency of the work steps/ procedures is based on discussions and agreement with the Client. We make no representation regarding the sufficiency of the procedures performed either for the purpose for which this engagement was sought or for any other purpose.
- The performance of services does not and will not constitute an audit or a limited review performed in accordance with generally accepted auditing standards in India, or a due diligence or an examination of internal controls, or other attestation or review services or services to perform agreed upon procedures in accordance with standards established by the Institute of Chartered Accountants of India nor do they or will they constitute an examination of a forecast in accordance with established professional standards.
- Save as expressly provided herein above, these observations should not be used, circulated, quoted or otherwise referred to for any other purpose, nor included or referred to in whole or in part in any document without our prior written consent. Further, CLA IVC assumes no responsibility to any user of the observations other than the Client. Any other persons who choose to rely on these observations may do so entirely at their own risk and cost.
- CLA IVC does not assure that its Digital Data Analysis would lead to identification of the source of the fraud. However, CLA IVC has executed detailed work steps as identified and agreed in our scope of work.
- Our reports and comments should not be considered a definitive pronouncement on the individual or the company.

3. SUMMARY OF FINDINGS



SUMMARY OF FINDINGS

(1/6)

- A. **Inventory control** : As part of physical verification process conducted across Plants at Jamshedpur of RKFL during the month of May 2025, for RM, WIP, FG & Scrap and after reconciling with Book/SAP stock, we noted overall shortage of **24,458 MTs** which after rolling back to 31st March'25 is **23,650 MTs** & the scrap shortage has been found totaling to **932 MTs**. The value of the same as per valuation methods followed by the company is **₹27,074.69 Lacs**, out of which **₹22,052.43 Lacs** has been accounted for in **FY 2024-25** by RKFL in its Financial Statements, and the remaining **₹5022.26 Lacs** has been accounted for in the previous year by RKFL. Below mentioned were details of shortage in quantities with reasoning –

S. No.	Section	Quantum (MT) (As on PV Dates)	FY 2025-26	FY 2024-25	Previous Years	SD	PD	OD
Total Variance between PV & Book/SAP Stock		24,458.18	808.67	19,050.76	4,598.75	-	-	-
A	Material code to Material code Transfer via SAP Movement Type 309	13,085.52	-	13,085.52	-	×	✓	×
B	Accounting of In Process WIP Stock for assembly items (Plant VII) on the basis of Z Report of SAP	3,812.88	-	911.48	2,901.40	✓	×	×
C	Process Loss : Unrecorded Kerf Loss (Plant VII)	1,204.11	52.26	517.78	634.07	✓	×	✓
D	Process Loss : Unrecorded Plate Dimension (length, width & thickness) Loss (Plant VII)	602.05	26.14	258.89	317.02	✓	×	✓
E	Unrecorded destructive testing loss after Heat treatment	837.17	-	837.17	-	×	✓	×
F	RM found based on Physical verification of Previous Year and entries made in current year via 701 without corresponding effect in SFG.	746.26	-	-	746.26	×	✓	×
G	Material rejected as scrap in plants but available in block stock in SAP as SFG via 555/556	1,053.75	730.27	323.48	-	✓	✓	✓
Unreconciled Inventory Variance		3,116.44	-	3,116.44	-	-	-	-

*Reasoning not ascertainable, however we found that similar quantity of extra scrap was generated during the period in books.

Legends -					
SD	System Deficiency	PD	People Deficiency	OD	Operational Deficiency

SUMMARY OF FINDINGS

(2/6)

The shortage can be broadly attributed to :

- **Erroneous Entries made by users via different movement types in Material Management(MM) module of SAP via 309:** RKFL was using material movement type such as 309 for rectification/ regularization from one SKU to another SKU as well as process stage changes mainly due to error in posting of daily production report. This was primarily used for rectification of user level entry which cannot be corrected from standard SAP transaction code. These errors are due to huge no. of SKUs at multiple plants and rectification of such error cannot be done through standard SAP process hence 309 was being used by users on regular basis as per standard practice. While there was not any impact on overall number of pieces of material, but material to material movement has affected the weight of products due to which excess/short weight was generated in system. Material to Material transfer also leads to reduction and simultaneously increasing inventory in weight of different material codes, which can be corroborated with shortage for particular material code and excess in another material code and during fact-finding exercise we noted these entries were done on verbal discussion with production team without any formal documentation at plant level, these entries has resulted into incorrect recording of net increased book weight in SAP during our review period.
- **Reliance on Z-Report for In Process WIP for Plant VII:** Z-report was developed in house for quantifying in-process WIP & same was used and validated by process owners regularly in all the plants of RKFL which are mainly forging & machining plants. While multiple process was involved the output was always 1:1 across all stages i.e., one item to another item. However, the same was used for driving in process stock for **Plant VII** which is primarily an assembly plant. Unlike in other plants in case of Plant VII in most of the stages the process involved many items to one item ratio. Due to this error the quantity which was wrongly reflecting as "In process" Stock in **Plant VII** may not be fully correct because of no 1:1 correlation of input and output. Due to this it resulted in shortage of SFG in Plant VII, this is attributed to process failure in implementation of Z-report in **Plant VII**.
- **Unrecorded Process Losses (Kerf Loss in Plant VII):** On process review, we noted Company has not accounted for process losses in Plant VII such as Kerf (Burning) loss. Burning loss is the result of intense heat and high-pressure gas stream generated by plasma/laser/cutting arc. This plasma reaches extremely high temperatures up to 40,000° Fahrenheits, while the boiling temperature of Steel is around 5400° Fahrenheits. Plasma jet melts the metal & high-pressure gas stream evaporates the molten metal, creating a cut, this process is only applicable to Plant VII. This loss was unrecorded in SAP and BOM, resulting in difference in actual and SAP stock of Raw Material.
- **Unrecorded Process Losses (Size variation in Plant VII):** RM Plates are received with addition of plate size tolerances, which increases the plate weight simultaneously this increases the weight of the component. But the weight of component is booked as per designed drawing weight with standard dimensions as per nesting. Excess weight due to over dimensions is not accounted for during booking of raw material consumption and this creates differences in actual and SAP stock.

SUMMARY OF FINDINGS

(3/6)

- **Raw Material found based on Physical verification of Previous Year and entries made in current year without any corresponding adjustment in SFG:** Entries made for material which was found based on physical verification as per previous period, while the inventory was posted in SAP via 701 the corresponding effects of reduction of SFG stock was not given which led to this shortage in Cut-Blank SFG Stock based on our Physical Verification activity.
- **Material rejected as scrap in plants but available in block stock in SAP as SFG via 555/556 :** Movement type 555/556 used for blocking/unblocking of rejected materials. On review, we noted company has developed Z-report with automated 5 tier approval mechanism and if Final level of approval is pending then material remains in blocked stock state. We noted Blocked Stock in SAP of 1,893 MTS, and corresponding shortage of SFG & FG on physical verification we found 1,378 MT which was missing which may be due to physical transfer of such rejected material by the company as excess scrap without giving corresponding effect in the SFG as per SAP.
- **Unrecorded destructive testing in heat treatment:** Company uses destructive testing for quality testing of material. It was discovered during our joint fact-finding exercise and after discussion with local plants management we came to know that the number of pieces actually cut for lab testing is more than the booked quantity in the system resulted in variation between actual & SAP stock of SFG. RKFL plant employees acknowledged that excess materials were subjected to destructive testing and not accounted for in the system. This is corroborated with the fact that excess scrap has been generated in the system
- **Mismatch in Daily Production Reports:** On test review of daily production report and reconciliation of same with SAP, we noted discrepancies such as post-dated entries, delay in generation of Daily Production Report, BOM routing not available for SAP for process, production booked under different machine number & production booked under different part number. This results in wrong booking of production in SAP.
- **Recording consumption quantity as per Bill of Material (BoM) instead of actual quantity :** Analysis of the sample data on raw material consumption showed that the consumption quantities were as per the quantity specified in BoM. We noted that the actual output quantities and input quantities were not documented, rather SAP entries that were made based on BoM which may be sometimes different than the actuals.
- **Scrapping and Scrap Reversal via SAP Material Movement Types 551/552:** While shortages in physical inventory were noted and explained above it was noted that Company during the same period has generated excess scrap aggregating to 8,357 MTs. Such generation was done using movement type 551/552 in SAP based on physical availability of material. This is due to unreconciled shortages, rejections of materials in plants, excess Lab cutting of materials and various other reasons which cannot be ascertained.

SUMMARY OF FINDINGS

(4/6)

- B. Internal Control** – We noted certain internal control weakness such as :
- Accounting control lapses in MM module
 - Scrap Accounting
 - Daily Production Reporting and recording in SAP
 - Non- Accounting of various kind of Material Rejection in SAP
 - Absence of adequate documentation maintenance for SAP special movement type entries
- C. GST Reconciliation** – On test review we conducted reconciliation of outward supplies with dispatch register & input tax credit with input register, no major variances were noted.
- D. Bank Statement Analysis** – On test review we conducted reconciliation of bank statements with books of accounts, we did not find prima facie any unauthorized or suspicious payments made to the vendors or any third party.
- E. Related Party Transactions** - On test review we checked Related Party Transactions with GST Reconciliation as well as for Sales and Jobwork, we have checked material movement from Despatch Register on sample basis and found that in order.

We did not find any direct material loss after reconciliation, as the extra scrap generated from time to time due to rejections of materials in plants, excess Lab cutting of materials and various other reasons which cannot be ascertained. Further, based on our test review of GST reconciliation & Bank statement analysis prima facie no unauthorized payments were noted to be made to the vendors or any 3rd parties.

SUMMARY OF FINDINGS – DIGITAL DATA ANALYSIS

(5/6)

Digital Imaging of Devices

- Documents reviewed against the keyword hits during Laptop Imaging, Indexing and Review processes revealed files which were of an operational nature. The files reviewed included daily stock statements, daily production records, and various other operational documents, purchase orders etc. Media files mainly consisted of photographs of the plant and inventory records. The system files reviewed contained SQL files and other miscellaneous system-related files.
- In cases where we have observed email communications discussing variances in store items, RM, FG and SFG there have been inconclusive trails of email communication. Further, these communications are prior to the Physical Verification exercise conducted by the Fact Finding Team. All such differences have been appropriately considered during the reconciliation exercise performed by the team post the physical verification.
- Laptops of majority custodians have yielded operational and production files which did not necessarily be related to the Fact-Finding.

Interviews of Custodians related to SAP Entries

- Interviews of the custodians have highlighted a lack of documentation during posting of special SAP movement entries..
- Interviews of Senior Leadership sheds light on the inability of the company to scale the SAP systems for stock maintenance and effectiveness of overall internal checks.
- A system of entering rectification / correction entries is in place. Although, none of the custodians has maintained proper documentation to supplement these entries further creating weakness in the system.
- SAP Access protocols are not well defined which in turn lacks the ability to define proper accountability.
- The senior leadership has confirmed that while the Company has established internal control mechanism, however with the rapid growth of the organization, a weakness was noted around timely recording of production entries in SAP.
- While SAP has been used for a fair amount of time, however the optimal usage of SAP has not been done which led to error in reporting.

SUMMARY OF FINDINGS – DIGITAL DATA ANALYSIS

(6/6)

- When we have questioned the ED Accounts & Finance regarding material movement via 309, Kerf Loss, usage of Z-report etc., answers were provided such as movement type 309 is used for rectification & regularization of error in MM Module mainly due to erroneous production recording sometimes, Kerf loss was unique to plant VII as process differs in comparison other 6 plants, Z-report was designed for 1:1 co-relation for forging plants while plant VII has many to 1 co-relation being the fabrication/assembly plant.
- When asked about the physical verification process the common theme from senior leadership indicated that the physical verification was done on annual basis on hybrid methodology (includes estimation & physical counting) considering the huge volume of more than 2000 SKUs across multiple Plants of the company.
- Custodians have indicated that there is a routine delay of 2–3 days in recording entries in the MM Module of the SAP system. Such delays are generally considered normal and are often attributed to quality checks or technical issues.
- Custodians have indicated that they are not authorized to make backdated entries directly. Such entries must be routed through the IT and Accounts departments who have the relevant system authorizations.
- When asked about the basis of posting Entries via movement type 309, all the custodians have stated that for posting of rectification entries this was used based on discussion with the PPC head & accounts team on regular basis, same was cross verified on random basis.
- There are delays in recording entries in SAP, resulting in untimely reflection of transactions in the system.
- Backdated and rectification entries are routinely posted in SAP, typically few days after the actual transaction date, especially around month-end or quarter-end, to align SAP records with floor stock based on inputs from PPC. These entries, including depreciation adjustments, are posted on the basis of discussions, random test checks but without proper documentation which poses a risk of errors and transparency.



Thank You

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