Audit of Fraud
Fraud Detection Techniques & Forensic Audit

Defalcation of Government Money - A Case Study

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From the PD’s Desk

As a part of our pursuit towards excellence in training in the area of “Audit of Fraud, Fraud Detection Techniques and Forensic Audit”, we bring out a series of cases of frauds reported in the audit reports of the Comptroller and Auditor General of India, as case studies. Simultaneously, we also endeavor to consolidate the approach and methodology followed by fraudsters in committing them as well as the manner in which they were prevented/detected.

This case study, “Defalcation of Government Money” has been prepared based on the material reported under para 4.1.1 of the report of the Comptroller and Auditor General of India for the year 2005-2006 Government of Kerala. I take this opportunity to extend my sincere thanks to Shri S. Nagalsamy, Principal Accountant General (Audit), Kerala, Thiruvananthapuram who made us available the relevant documents of the case whenever requested for. I am also thankful to her for arranging for validation of the facts reported and conclusions drawn in the case study.

I commend the efforts of Shri K. G. Hatwar, Sr. Audit Officer/Core Faculty in preparing this case study on the lines directed from time to time.

I hope that the readers would benefit from this. Their suggestions, if any, would help us in future such attempts.

RTI, Nagpur
Dated: 20th Feb 2009

Dr. Sadu Israel
Principal Director
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Defalcation of Government Money

1. Background

Failure of DDO to exercise the codal provisions led to misappropriation of Rs. 56.28 lakhs in three different offices (Home Department, Health Department, and Social Department) of Kerala as outlined below.

(a) In the office of the Superintendent of Police (SP) Crime Branch CID (CBCID), Palakkad, Rs.21 lakh were drawn in excess of the amount required for disbursement in seven bills. In six bills, Rs. 18.65 lakh were drawn in excess towards GPF advance between July 2005 and March 2006.

(b) In the office the Child Development Vadavucode [Ernakulam] in 19 honorarium bills of Anganvadi workers and helpers for the period from July 2004 and September 2005 Rs.8 lakh were drawn fraudulently. In 26 bills, Rs.0.70 lakh was drawn in excess from the treasury during August 2003 and October 2004. Towards surrender leave salary of nine persons Rs. 0.19 lakh was drawn double on 24th April 2004 and 27th May 2004.

(c) On various occasions Upper Division Clerk has defalcated Rs. 7.74 lakh (PHC, Nediyirippu Rs. 3.44 lakh PHC Morayoor Rs. 4.30 lakh)

2. Fraud Environment

Kerala Treasury Code (KTC) prescribed the various provisions to be followed by the Drawing and Disbursing Officers for preparation, presentation of the bills in the Treasury and Disbursement of money. The Rules provide that the component items of an establishment bill should be checked by the DDO’s and the totals shown in the bills should be
checked by him or he should get it checked by a Gazetted Government Officer before it is signed. It is further stipulated that the Treasury Officer/ sub Treasury Officer shall not honour the bills presented for encashment if he notices erasures or unattested corrections in a Bill Book and it is the duty of the Drawing Officer to ensure that there are no erasures or unattested corrections in the Bill Book.

3. **Opportunity to prevent Fraud**

The three acts of fraud explained separately could have been avoided through the following i'Enternal controls.

(a) Verification of the supporting documents vis-à-vis the amount claimed.

(b) Dishonoring of the claims with marks of overwriting/ erasures/ unattested corrections.

(c) Regular Verification of Treasury Bill Book for missing pages, if any.

(d) Adherence to the norms stipulated in the codal provisions on delegation of financial powers.

(e) Regular comparison of the amount in the Treasury copy of the bills with the office of the bills, totaling each column of the bills and acquaintance rolls etc.
### 4. Act of Fraud

The details of act of frauds in all the three cases are summarized below:

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Name of Office</th>
<th>Act of Fraud in Brief</th>
<th>Amount (Rs. In lakhs)</th>
<th>Methodology followed in committing the frauds</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Superintendent of Police (SP) Crime Branch CID [CBCID], Palakkad</td>
<td>In Seven bills amount drawn in excess of the amount required for disbursement</td>
<td>21.00</td>
<td>➢ Included some fake withdrawals along with genuine sanctions to inflate the total in the treasury copy of the bills. The amounts relating to genuine sanctions were entered in the Cash Book and disbursement made. After encashment of the bills, figures in the Treasury Bill Book were corrected as those of the office copy of the bills by overwriting and erasing.</td>
</tr>
<tr>
<td>2</td>
<td>Superintendent of Police (SP) Crime Branch CID [CBCID], Palakkad</td>
<td>In Six bills amount were drawn in excess towards GPF Advance between July’05 &amp; March’06</td>
<td>18.65</td>
<td>➢ Non entry in the Treasury Bill Book to indicate that these bills were routed through the Treasury Bill Book. The amount drawn were not accounted in the cash book and not disbursed.</td>
</tr>
<tr>
<td>3</td>
<td>Child Development Vadavucode [Ernakulam]</td>
<td>In 19 honorarium bills of Anganwadi workers &amp; helpers (July’2004 to Sept’2005) amount were drawn fraudulently.</td>
<td>8.00</td>
<td>➢ The drawal were in excess of the actual amount required for disbursement, by fraudulently inflating the total column of the bills presented at the Treasury. The figures in the Treasury Bill Book were corrected as those of the office copies of the bills after encashment of the bills and the excess amount misappropriated.</td>
</tr>
<tr>
<td>4</td>
<td>Child Development Vadavucode [Ernakulam]</td>
<td>In 26 bills amount was drawn in excess from the treasury (August’2003 &amp; October’2004)</td>
<td>0.70</td>
<td>➢ Inflating the total column of the Treasury &amp; Office copy of bills. The amounts drawn in excess were shown as disbursed in the cash book. The grant totals of the acquittance were shown as inflated and balance amount defalcated.</td>
</tr>
<tr>
<td>5</td>
<td>Child Development Vadavucode [Ernakulam]</td>
<td>Towards surrender leave salary of persons double amount was drawn (April-May’2004)</td>
<td>0.19</td>
<td>➢ By quoting the same bill number by disbursing the amount column in the Treasury Bill Book by drawing a single line across the original entry.</td>
</tr>
<tr>
<td>6</td>
<td>PHC, Nediyirippu, Morayoor</td>
<td>Defalcation by UDC worked previously</td>
<td>7.74</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>56.28</td>
<td></td>
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</table>
5. Opportunity to detect and proving the Fraud
The Audit party of the Accountant General Kerala conducted the audit of the records of the O/o the superintendent of Police (SP) Crime Branch CID [CBCID] Palakkad, Child Development Project Officer, Vadavu code, PHC, Nediyirippu and PHC, Morayoor for the period between July 2005 & March 2006 from July 2004 to September 2005, August 2003 & October 2004, April 2004 & May 2004 and between 2004 & 2006 respectively found that the Drawing & Disbursing Officer did not observe the rules ibid strictly which resulted into misappropriation of huge amount by Cashiers/UDC. The following red-flags helped the audit teams to in substantive testing of the transactions.

6. Red Flag Indicators
   a) Traces of frequent overwriting & erasing in the cash book.
   b) Non-reconciliation between Treasury Account & DDO’s Accounts.
   c) Lack of evidence of exercising mandatory pre checks at the DDO level.
   d) Non-attestation of entries in the cash book and non-verification of the pad vouchers.

7. Lessons Learnt – Preventive Controls/Detective Controls
   a) Failure of the Drawing & Disbursing Officers to attest each entry with reference to paid vouchers could render all the preventive controls in the system ineffective.
   b) Taking payments in cash without proper receipt and record create scope for embezzlement.
### Vital Key Documents

<table>
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<th>Sr. No.</th>
<th>Name of Department</th>
<th>Details of key Documents in Brief</th>
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<tr>
<td>1</td>
<td></td>
<td>Copy of Para No. 4.1.1 of audit report of Comptroller &amp; Auditor General of India for the year 2005-2006</td>
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<tr>
<td>2</td>
<td></td>
<td>Copy of Kerala Treasury Code – Vol I</td>
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| 3      | Home Deptt.       | The relevant provisions of Kerala Treasury Code  
Statement showing the details of fraudulent drawal  
(i) Rs. 21.00 lakh  
(ii) Rs. 18.65 lakh |
| 4      | Social Welfare Deptt. | Statement showing the defalcation of Rs. 8.0 lakh  
Statement showing the defalcation of Rs. 0.70 lakh  
Copy of Register of Expenditure showing payment of Rs. 0.19 lakh |
| 5      | Health & Family Welfare Deptt. | (i) Statement showing the defalcation amount of Rs. 3.44  
(ii) Local Audit Report showing the details of total recoverable amount of Rs. 4.30 lakh. |
CHAPTER IV
AUDIT OF TRANSACTIONS

Audit of transactions of the Government, their field formations as well as of the autonomous bodies brought out several instances of lapses in management of resources and failures in the adherence to the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs.

4.1 Fraudulent drawings/embezzlement

Failure of Drawing and Disbursing Officers to exercise checks prescribed in financial rules led to defalcation of Rs 56.28 lakh.

Kerala Treasury Code (KTC) prescribes the various provisions to be followed by the Drawing and Disbursing Officers (DDOs) for preparation, presentation of the bills in the Treasury and disbursement of money. The Rules provide that the component items of an establishment bill should be checked by the DDOs and the totals shown in the bill should be checked by him or he should get it checked by a Gazetted Government Officer before it is signed. It is further stipulated that the Treasury Officer/Sub Treasury Officer shall not honour the bills presented for encashment if he notices erasures or unattested corrections in a Bill Book and it is the duty of the Drawing Officer to ensure that there are no erasures or unattested corrections in the Bill Book.

It was noticed in Audit that there was misappropriation of Rs 56.28 lakh in three offices due to failure of the DDOs to exercise the codal provisions as detailed below:

HOME DEPARTMENT

Audit conducted in March-April 2006 in the Office of the Superintendent of Police (SP), Crime Branch CID (CBCID), Palakkad revealed fraudulent withdrawals of GPF amounting to Rs 39.65 lakh in 13 bills between July 2005 and March 2006 as detailed below:

- In seven bills, Rs 21 lakh were drawn in excess of the amount required for disbursement. The method adopted was to include some fake withdrawals along with genuine sanctions to inflate the total in the treasury copy of the bills. The amounts relating to genuine sanctions were entered in the Cash Book and disbursement made. After encashment of the bills, figures in the Treasury Bill Book were corrected as those of the office copy of the bills by overwriting and erasing.

- In six bills, Rs 18.65 lakh were drawn in excess towards GPF advance between July 2005 and March 2006. But there was no entry in the Treasury Bill Book to indicate that these bills were
routed through the Treasury Bill Book. The amounts drawn were not accounted in the Cash Book and not disbursed. The District Treasury Officer (DTO), Palakkad stated (April 2006) that no GPF bills were encashed without routing through the Treasury Bill Book and that some of the pages in the Treasury Bill Book in use during the period were found to be removed from the Bill Book. However, the DTO, Palakkad failed to note the erasures and corrections in the Bill Book and the missing pages till the fraud was detected in audit.

* Out of 51 fraudulent withdrawals detected, 13 withdrawals were for Rs 1,00,000 each, which exceeded the financial powers of the SP (DDO), and in respect of these cases, even the sanctions on behalf of the Additional Director General of Police were found to be prepared fraudulently and attached with the bills.

It was further noticed in Audit that the SP, CBCID did not exercise the following basic internal checks envisaged in the Kerala Treasury Code, which facilitated defalcation of such huge amounts within a short span of eight months.

* A mere comparison of the amount in the Treasury copy of the bills with the Office copy of the bills could have detected the discrepancy and the continued presentation of the forged bills indicates that such a check was not exercised in the Office.

* Bills presented to the DDO for endorsement before sending to treasury with the fake sanctions of Additional Director General of Police could have been detected by the DDO if the checks prescribed while attesting the Bill Book entries, Cash Book, Acquittance, etc., were exercised.

* Amounts received from the Treasury as per treasury copy of the bills were not checked by the DDO with office copy of the bills, Cash Book and Acquittance Rolls.

* It is the duty of the Drawing Officer to ensure that there are no unattested corrections or erasures in the Bill Book. There was gross negligence by the DDO in maintaining and checking of Bill Book.

SP, CBCID stated (July 2006) that a police case had been registered and that the investigations were in progress.

**SOCIAL-WELFARE DEPARTMENT**

A special Audit conducted in the office of the Child Development Project Officer, Vadavancode in Ernakulam District for the period August 2003 to November 2005, at the request of the Sub Treasury Officer, Kollamchery revealed (December 2005) defalcation amounting to Rs 8.89 lakh. The details of defalcation are indicated below:

* In the 19 honorarium bills of Anganvadi workers and helpers for the period from July 2004 to September 2005, Rs 8 lakh were drawn in excess of the actual amount required for disbursement by fraudulently inflating the total column of the Bills presented at the Treasury. The figures in the Treasury Bill Book were corrected as those of the office copies of the bills after encashment of the bills and
the excess amount misappropriated.

- In 26 bills, Rs 0.70 lakh was drawn in excess from the Treasury during August 2003 and October 2004 by fraudulently inflating the total column of the Treasury and office copy of bills. The amounts drawn in excess were shown as disbursed in the cash book. The grand totals of the acquaintance rolls were shown as inflated and balance amount defalcated.

- Surrender leave salary of nine persons for Rs 0.19 lakh was drawn from the Treasury on 24 April 2004. The same amount was again drawn on 27 May 2004 quoting the same bill number by disfiguring the amount column in the Treasury Bill Book by drawing a single line across the original entry. This led to double drawing and Rs 0.19 lakh was defalcated.

It was noticed in Audit that the three Project Officers who were DDOs during the period (August 2003 to September 2005) failed to exercise the basic internal control checks prescribed in the KTC. Essential checks like comparison of the entries in the bills presented at the Treasuries with the office copies, checking of amounts received from the treasuries with the office copies of the bills, totalling each column of the bills and acquaintance rolls, etc., were not conducted and there was failure to ensure that there were no erasures or unattested corrections in the Bill Book thereby facilitating defalcation to the tune of Rs 8.89 lakh.

HEALTH AND FAMILY WELFARE DEPARTMENT

Test check by Audit of the Accounts of the Primary Health Centre (PHC), Nediyiruppu in Malappuram District revealed (March 2006) that the Medical Officers of the PHC, who were the DDOs did not comply with the codal provisions thereby facilitating defalcation of Rs 2.63 lakh between 2004 and 2006 by the Upper Division Clerk (UDC) of the PHC.

The defalcation was committed by (i) claiming false salary arrears (6 bills), GPF advance (4 bills), Surrender Leave Salary/establishment (3 bills), medical reimbursement (1 bill) of the employees (Rs 1.76 lakh), (ii) drawing excess amount of salary from the Treasury fraudulently and disbursing actual salary to the staff, but making alteration in the acquaintance roll after disbursement and misappropriating excess amount (Rs 0.50 lakh) and (iii) claiming salary/arrears in the name of officers already transferred (Rs 0.28 lakh) and officers already terminated (Rs 0.09 lakh). The UDC admitted the excess/unauthorised withdrawals and stated (March 2006) that he would refund the amount.

At the instance of Audit, a Special Team of the District Medical Officer (DMO), Malappuram conducted (March 2006) a detailed investigation of the PHC, Nediyiruppu and also PHC, Morayoor where the UDC worked previously and found that the actual amount defalcated by him on various occasions was Rs 7.74 lakh (PHC, Nediyiruppu : Rs 3.44 lakh, PHC, Morayoor : Rs 4.30 lakh). The UDC was held responsible and was placed under suspension (27 March 2006). The entire amount of Rs 7.74 lakh was remitted by the UDC between March-May 2006.
It was noticed in Audit that the DDOs did not exercise the checks prescribed in the KTC like checking of bills, arithmetical accuracy and acquaintance rolls, which facilitated presentation of large number of houga claims. Amounts received from treasury were not checked with the Cash Book, office copy of the bills and acquaintance rolls.

The above points were referred to Government in June 2006; replies have not been received (August 2006).

4.2 **Infructuous/wasteful expenditure and overpayment**

**TOURISM DEPARTMENT**

4.2.1 **Idle investment on a tourism project**

Acquisition of land falling under Coastal Regulation Zone resulted in idle investment of Rs 28.44 lakh and non-achievement of the project.

The land acquired at a cost of Rs 28.44 lakh remained idle for the last 5 years and the possibility of development of the land into a tourist centre appears to be remote in view of the CRZ restrictions. Thus, the expenditure of Rs 28.44 lakh incurred for the acquisition of land intended for a tourist centre resulted in an idle investment due to lack of foresight and poor planning.

The matter was referred to Government in July 2006; reply had not been received (August 2006).
Form T.R. 40 on the strength of the pay slip or letter of authority issued by the Accountant-General and bills being subject to countersignature by the Gazetted Controlling Officer. In such cases, the surrender of Last Pay Certificate as required in rule 13 of the Kerala Treasury Code to the Treasury Officer is not necessary.

Note: The claims on account of pay and allowances of the Non-gazetted personnel should be deemed to arise at the station where the drawing officer who draws the claims, is stationed.

(b) Form T.R. 31 shall be used for bills for the pay, fixed allowances and leave salaries of Non-gazetted government servants drawn by the head of the office for disbursement to them. Separate bills shall be prepared in each office for each of the following classes, if it exists:

(i) Permanent establishment.

(ii) Temporary establishment.

With the exceptions mentioned in Rule 171, the name of every substantive, officiating or temporary government servant on whose behalf a claim is made shall be shown in column (2) against his post in column (1). Against each temporary post the number and date of the order sanctioning it and the name of the authority which passed the order shall be entered. The rate of pay, etc. claimed shall be shown against each name in column (2). If the payment of any claim for the month to which the bill relates is postponed, it shall not be omitted from the bill, but the amount of each claim held over for future payment shall be noted in red ink in the appropriate columns (3) to (6) and ignored when balancing the bill. When pay, etc., is claimed only for part of the month, the number of days, for which it is claimed shall be entered either against the government servant’s name or in a note at the foot of the page. The part of a bill relating to each section (See Article 86 of the Kerala Financial Code) shall be marked off in red ink. The components of an establishment bill shall be checked, and the total shown in the bill shall also be checked by adding up the items. If the bill relates to a small establishment the drawing officer shall either check it himself, or have it checked by a gazetted government servant under his orders, before he signs it. If the bill relates to a large establishment, the drawing officer shall ensure that the whole bill is thoroughly checked by someone other than the clerk who prepared it and shall himself check a part of the bill or arrange for a gazetted government servant to do so, before he signs it.

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4/991—10a
When a government servant is transferred from one district to another within the same Audit Circle, the last pay certificate granted to him should specify that the regular monthly payment and travelling allowance to which he is entitled at the old station in which the transfer takes place should be paid in the new district, except as provided in Article 87 (d) of the Kerala Financial Code. Payment on account of his claims for travelling allowance arising in the old district in respect of journeys performed before the transfer may also be made in the new district, provided that the controlling officer for the old post certifies that claims are correct.

(d) A government servant who is transferred may be allowed to draw an advance of pay on transfer at his new station within a month of his arrival there, if his last pay certificate show that he did not draw any such advance at his former station. A government servant, who receives an order of transfer during his leave, may draw an advance of pay and travelling allowance from the treasury from which he draws his leave pay.

Note: The drawal of an advance under the above rule is subject to the condition that the government servant concerned is entitled to and has been sanctioned by the proper authority an advance of pay under Article 260 of the Kerala Financial Code.

[Deleted.]

B. Non-gazetted Government Servants

169. (4) The pay and allowances of an establishment should be drawn by the gazetted officer-in-charge of it; but if the officer-in-charge is not a gazetted officer the bill should be countersigned by a Gazetted Officer in control over him or by the head of the department at the discretion of the latter.

Exception — (1) Such classes of Non-gazetted Officers as are mentioned in Appendix 10 may draw bills relating to the pay and fixed allowances of their establishments without countersignature. They may also draw the travelling allowance bills of their establishments subject to the condition that they should be got countersigned by the controlling officers referred to in Rule 113 of Part II of the Kerala Service Rules.

(2) A government servant who is reverted from a Gazetted post to a Non-gazetted post may draw his arrear claims for pay and allowances in respect of the period of gazetted service in bills in
431. No voucher shall be treated as a valid voucher unless it bears a distinct pay order, specifying the amount payable both in words and in figures separately and signed and dated by hand and in ink by the responsible disbursing officer. Cashiers and other government servants who are authorised to make payments on passed vouchers shall not make any payment on a voucher unless it bears pay order satisfying the requirements. The fact of payment with date, the manner in which payment is made (whether by cash or cheque) and the details of the bill in which the amount was drawn should also be recorded on the voucher and attested by the dated signature of the disbursing officer.

Note:—1. The pay order on the voucher shall be in the following form, viz.,

"Pay Rs. [Rupees] [amount] to [name of payee] by [cash/cheque] [method].

Station [details].

Date [date].

Signature, Name and Designation of the Disbursing Officer."

The fact of payment should be recorded on the voucher in the following form viz.,

"Paid by [cash/cheque] No. [number] on [date].

[Method] No. [number] and amount of bill [details].

Entered as item No. [number] in the [register].

[Head of debit] [details].

Signature, Name and Designation of the Disbursing Officer."