From PD's Desk

I have great pleasure in presenting the VII issue of this Institute's Newsletter "The Forerunner" which showcases the important events held during the period between October 2009 and March 2010.

The significance and value of training has long been recognised. Consider the popular and oft repeated quotation "Give a person a fish and you feed him for a day. Teach a person to fish and you feed him for a life time". This simple but profound saying attributed to the wisdom of Confusius, is more relevant in today's work climate. It is an accepted fact that knowledgeable employees make fewer mistakes and that training helps employees in attaining personal growth and creates a healthy working environment. It has been the endeavour of this Institute to enhance the technical and behavioural skills of the human resources of our department through various training programmes. We fully understand that training is a way of life for professionals and that there is enormous excitement and energy to be got from learning. This belief was reinforced in the training of 31 Direct Recruit Assistant Audit Officers (Probationers), Railway Audit (Phase I & Phase II) in our Institute between December 2009 and April 2010.

The members of the Regional Advisory Committee of this Institute deserve special thanks and appreciation for their support in formulating and finalising the Annual Training Calendar of 2010-11. Various new training programmes planned by Headquarters have been included in the Calendar with a view to provide more skills in the hands of Auditors and Accountants of the Department.

As part of our efforts in the development of research papers, case studies and reading material in the given area of our excellence, ie. 'Audit of Fraud, Fraud Detection Techniques and Digital Forensics', we have undertaken the study of relevant paras from the C&AG’s Receipt Audit Reports along with those of Civil Audit Reports and develop them into case studies. Contribution towards this task are wholeheartedly welcome from all our readers.

S. Snehalatha
Principal Director

In this Issue

- Faculty's Column
- Focus Column
- Our Toppers
- Education Column
- Our Products
- Audit Column

Shri S. Ramesh Commissioner, Central Excise, Nagpur inaugurates an all India workshop on "Anti-Fraud Framework & Digital Forensics" for Group A & B Officers from all over India held on 17.11.2009

THE MANDATE

Headquarters declared this institute as a Centre of Excellence in October 2003 with a mandate to act as a repository of information on the subject through developing quality reading material, case studies (national and international), research papers and database of expert faculty and media reports. Significant developments in the matter are also to be reported through a newsletter for information to the user offices and sister institutes.

What is new?

- Phase I Training of DRAAO (Probationers), Railway Audit - December 2009 - February 2010
- Phase II Training of DRAAO (Probationers) Railway Audit - March-April 2010
Budget Glossary

- P.P. Ghare Sr. AO/CF

Every year the Government has to present a Revenue Budget (revenue account) and Capital Budget (capital account) to Parliament for meeting the expenditure out of Consolidated Fund of India. The main sources of Revenue Receipts are:

**Direct Taxes:**
Traditionally, these are taxes where the burden of tax falls on the person on whom it is levied. These are largely taxes on income or wealth. Income tax (corporate and individual). Wealth Tax, Gift Tax, Security and Transaction Tax are Direct taxes.

**Indirect Taxes:**
In case of indirect taxes, the incidence of tax is usually not on the person who pays the tax. These are largely taxes on expenditure and include Customs, Excise and Service tax. Indirect taxes are considered, a burden on the rich and the poor alike. That is why Governments strive to raise a higher proportion of taxes through direct taxes.

**Non-Tax Revenue:**
The most important receipts under this head are interest payments (received on loans given by the Government to States, Railways and others) and dividends and profits received from public sector companies.

Various services provided by the Government- police and defence, social and community services such as medical services and economic services such as power and railways - also yield revenue for the Government.

Though Railways are a separate department, all its receipts and expenditure are routed through the Consolidated Fund.

**Grants-In-Aid and Contributions:**
The third receipt item in the revenue account is relatively small, Grants-In-Aid and Contributions. They are in the nature of pure transfers to the Government without any repayment obligation.

(to be continued)

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Three steps to a paperless office

- D. Varghese, SAO/CF(IS)

1. **THINK BEFORE YOU INK:** Before you print out anything, ask yourself if it is absolutely necessary. If you have a digital copy of an e-mail, why do you need a printed version of the same? “Eco-Tip: printing e-mail is usually a waste.” People send too much e-mail, but printing them out is downright sinful.

2. **PREVIEW YOUR DOCUMENTS:** An average employee prints six totally useless pages per day. Just a look at the tray near the printer in your office is enough to see examples of them.

   There seems no reason why a print preview screen should not be the default on every office system. Sure, it would take an extra second and an extra click, but that saves office paper and ink.

3. **PRINT TO PDF:** It took a while to catch on, but PDF truly is a universal portable document format. And just attaching a word document to an e-mail is universal, too. Send digital files instead of paper whenever you can.

   Small Business Servers very much in operation in almost all offices should play a vital role in this direction to accomplish a paperless office. Electronic movement of files from personnel to personnel will definitely reduce time and stationery with obvious improvement in the quality of writing.

   There are more ways to cut back, of course, including printing on both sides of pages, electronic invoicing, and using multifunction devices to scan rather than copy, but those three steps alone could put a huge dent in paper waste.

   *(Courtesy: Mr. Dan Costa, The Indian PC Magazine)*

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Continuing Professional Education (CPE)

(Institute's Faculty trained between October 2009 and March 2010)

<table>
<thead>
<tr>
<th>Name of the Officers</th>
<th>Topic/ Subject</th>
<th>Place of Training</th>
</tr>
</thead>
<tbody>
<tr>
<td>K.G. Hatwar, SAO &amp; CF</td>
<td>All India Workshop on Clean Development Mechanism (CDM)</td>
<td>Regional Training Institute, Mumbai</td>
</tr>
<tr>
<td>D. Varghese, SAO &amp; CF</td>
<td>CAATs- ACL Audit Tool</td>
<td>IIA, Institute of Internal Auditors, Nagpur Chapter.</td>
</tr>
<tr>
<td>L.G. Bhute, AAO &amp; CF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>G.K. Omee, AAO &amp; CF</td>
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</tbody>
</table>

*The internal auditor is vitally concerned with all manners of waste and fraud, whatever the source and however small the size. This is rooted in the understanding that a tiny cloud can mushroom into a tempest that may rock the pillars of the enterprise.*

- Lawrence B.
OUR TOPPERS

Our institute, at the end of every training programme conducts an evaluation test. The following table indicates the details of the participants who secured the first and the second positions in the tests. They were awarded with token mementoes and merit certificates to sustain their interest and motivational levels. Their offices were also informed about it.

<table>
<thead>
<tr>
<th>General Courses</th>
<th>Month &amp; Year</th>
<th>First Rank</th>
<th>Second Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special course on Direct Taxes</td>
<td>November 2009</td>
<td>Shri Sanjay Pandey, AAO O/o DGA (C), Mumbai</td>
<td>Shri Ganesh Chandra Sinsky, AAO O/o AG, Goa, Panjiim</td>
</tr>
<tr>
<td>Use of Statistical sampling in IA &amp; AD</td>
<td>November 2009</td>
<td>Shri Bhupesh Kumar Dudey, AAO O/o PDA, SEC Rly, Bilaspur</td>
<td>Shri M. Shiv Reddy, Sr. AO O/o PDA SC Rly Secunderabad</td>
</tr>
<tr>
<td>Performance Audit</td>
<td>November 2009</td>
<td>Shri M. Rama Chandra Reddy, AAO O/o AG (C&amp;R&amp;A), AP, Hyderabad</td>
<td>Ms. M. Padma Priya, AAO O/o AG (C&amp;R&amp;A), AP Hyderabad</td>
</tr>
<tr>
<td>Intensive training course on Direct Taxes</td>
<td>December 2009</td>
<td>Shri Debasish Chattopadhyay, AAO O/o AG (W&amp;R&amp;A), MP, Bhopal</td>
<td>Shri Arvind Kumar Jamuna Singh, AAO O/o DGA (C), Mumbai</td>
</tr>
<tr>
<td>Certification of Annual Accounts of PSUs</td>
<td>February 2010</td>
<td>Shri Raghvendra Singh, AAO O/o DA (P&amp;T) Bhopal</td>
<td>Shri Paras Nath Hira, Sr. AO O/o DA (P&amp;T) Bhopal</td>
</tr>
<tr>
<td>Govt Accounting &amp; Certification of Finance Accounts &amp; App. Accounts &amp; Preparation of Chapter-I of Audit Report (Civil)</td>
<td>March 2010</td>
<td>Shri Rupesh Kumar, AAO O/o AG (A-II), Nagpur</td>
<td>Shri G. Y. Khoobragade, AAO O/o AG (A-II), Nagpur</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IS Courses</th>
<th>Month &amp; Year</th>
<th>First Rank</th>
<th>Second Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special course on PL/SQL</td>
<td>October 2009</td>
<td>Shri Sanjay Mandsaurwale, AAO O/o AG (W&amp;R&amp;A), MP, Bhopal</td>
<td>Shri Krishna Kumar, AAO O/o AG (W&amp;R&amp;A), MP, Bhopal</td>
</tr>
<tr>
<td>MS-Access</td>
<td>October 2009</td>
<td>Shri Pradip K. Tandekar, Sr. Auditor O/o PDA, Central Rly, Mumbai</td>
<td>Shri I.V.R. Prasad, Clerk O/o PDCA MAB, AP, Hyderabad</td>
</tr>
<tr>
<td>MS-Excel</td>
<td>November 2009</td>
<td>Shri Subrata Goswami Sr. Auditor O/o AG (A-I), Mah., Nagpur</td>
<td>Shri P.P. Sabe AO, O/o PDA, C. Rly, Mumbai</td>
</tr>
<tr>
<td>CAATS</td>
<td>December 2009</td>
<td>Shri Sanjeev Bhusan, AAO O/o AG (W&amp;R&amp;A), MP, Bhopal</td>
<td>Shri Shamilli Rasinghani, AAO O/o AG (W&amp;R&amp;A), MP, Bhopal</td>
</tr>
<tr>
<td>MS-Excel</td>
<td>January 2010</td>
<td>Shri Raj Kumar Sahani, Auditor O/o DA (P&amp;T) Nagpur</td>
<td>Ms. Archana Saxena, AAO (P) O/o PDCA, BHEL, MP, Bhopal</td>
</tr>
<tr>
<td>SBS-2003</td>
<td>February 2010</td>
<td>Shri P. Krishna Kumaran, Sr. Console Operator O/o AG (A&amp;E-I), MP, Bhopal</td>
<td>Ms. Rakha Narsikar, AAO O/o AG (A&amp;E-II), Nagpur</td>
</tr>
<tr>
<td>MS-Word</td>
<td>February 2010</td>
<td>Mrs. Sheela N. Bhat, AAO O/o PDA, Central Rly, Mumbai</td>
<td>Shri Nagrao S. Ninawe, Accountant O/o AG (A&amp;E-II), Nagpur</td>
</tr>
<tr>
<td>IT Audit</td>
<td>March 2010</td>
<td>Shri Pankaj Sharma, AAO O/o PDCA, BHEL, MP, Bhopal</td>
<td>Shri K. Shivkumar, AAO O/o AG (A&amp;E-II), Nagpur</td>
</tr>
<tr>
<td>Oracle 10g, PL/SQL</td>
<td>March 2010</td>
<td>Ms. Rakha Narsikar, AAO O/o AG (A&amp;E-II), Nagpur</td>
<td>Shri Deepak S. Khatri, AAO O/o AG (C&amp;R&amp;A) AP, Hyderabad</td>
</tr>
</tbody>
</table>

IMPACT OF TRAINING

Entry Behaviour Tests (EBT) are conducted at the beginning of IS based courses in order to assess the knowledge and skill levels of the participants in the subjects concerned. Participant-wise results of the End Course Tests (ECT) are compared with the results of the Entry Behaviour Test (EBT) to quantify the impact of training. A chart depicting the impact of training in respect of all IS based courses conducted between October 2009 to March 2010 is given below.

EVALUATION OF TRAINING

Based on the participants' feedback, every training programme is evaluated and grades are awarded. Details in respect of the courses conducted during October 09 to March 10 are depicted below.

Overall Rating of the Courses for courses conducted during Oct '09 to Mar '10

Performance of Participants

IS Courses

<table>
<thead>
<tr>
<th>&quot;A&quot; Grade (90% &amp; above)</th>
<th>&quot;B&quot; Grade (70% - 79%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>85%</td>
<td>15%</td>
</tr>
</tbody>
</table>

General Courses

<table>
<thead>
<tr>
<th>&quot;A&quot; Grade (75% &amp; above)</th>
<th>&quot;B&quot; Grade (70% - 79%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>86%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Analysis of Fraud:-

CASE HISTORY ANATOMY

The Fraud: The Director of Printing, Stationery and Publications, Bangalore intentionally bypassed the internal controls subverting the codal provisions given in KTPP Rules 1999, Financial Rules and Public Works Codes perpetrated a fraud for Rs 1.67 crore on the basis of fabricated documents.

The Method: No detailed estimates with technical sanction and administrative approval from the competent authority were obtained.

The construction of sheds/godowns and electrical works at Tumkur amounting Rs 1.67 crore was incurred without budget provision, through private contractors.

The work was executed without inviting tenders and written agreement.

The Director of Printing and Stationery, Bangalore made the payments on supply bills without recording measurements by the Engineer-in-charge.

The Director fabricated the completion certificates in respect of these work as if they had been issued by the KSSIDC.

How Detected: Audit party of Office of the Accountant General (C&CA), Karnataka, Bangalore during review of Internal Control Mechanism of the Department of Printing, Stationery and Publications noticed several irregularities in execution of Civil/Electrical works at Tumkur and Shimoga.

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**KEY PROCESSES AND CONTROLS LOST SIGHT OF**

<table>
<thead>
<tr>
<th>Key control to be in place</th>
<th>Key stages in execution of civil/electric work</th>
<th>Key control bypassed</th>
</tr>
</thead>
<tbody>
<tr>
<td>No work can be started without Technical sanction and Administrative approval to estimate</td>
<td>Register of sanctioned estimates</td>
<td>The works executed without estimates</td>
</tr>
<tr>
<td>No works should be started without Budget Provision</td>
<td>Budget Control Register</td>
<td>Work done by diverting funds</td>
</tr>
<tr>
<td>Civil/Electrical work should be executed through PWD</td>
<td>PWD</td>
<td>Not done</td>
</tr>
<tr>
<td>The work should be executed after inviting tender and agreement with contractors</td>
<td>Register of Tenders/Agreement</td>
<td>Work awarded directly to Contractor without agreement</td>
</tr>
<tr>
<td>Payment should be made on the basis of measurements recorded in MB by technical person in RA bill</td>
<td>Measurement book/RA bill</td>
<td>Payment made on supply bills without taking measurement</td>
</tr>
<tr>
<td>Fraud of Rs. 1.67 crore</td>
<td>Fabricated letters and certificates recorded on bill</td>
<td></td>
</tr>
</tbody>
</table>

*Independent auditors should accept the responsibility for the discovery and disclosure of those irregularities which the exercise of the audit care by a prudent practitioner would normally uncover. -Sharaf*
Virtual Private Networking-VPN

You may be aware that recently our department is planning to establish VPN connectivity to provide Data, Fax, Voice and limited Video Conferencing (group / personal) facilities throughout the Indian Audit and Accounts Department. Service providers may have visited your office site to place equipments etc. Let us understand what this VPN is.

What is VPN?
VPN gives extremely secure connections between private networks linked through the Internet. It allows remote computers to act as though they were on the same secure, local network.

Advantages
♦ Allows you to be at home and access your office computers in the same way as if you were sitting at work.
♦ Almost impossible for someone to tap or interfere with data in the VPN tunnel.
♦ If you have VPN client software on a laptop, you can connect to your office from anywhere in the world.

Disadvantages
♦ Setup is more complicated than less secure methods. VPN works across different manufacturers' equipment, but connecting to a non-NETGEAR product will add to difficulty, since there may not documentation specific to your situation.
♦ The company whose network you connect to may require you to follow the company's own policies on your home computers.

VPN goes between a computer and a network (client-to-server), or a LAN and a network using two routers (server-to-server). Each end of the connection is an VPN "endpoint", the connection between them is a "VPN tunnel". When one end is a client, it means that computer is running VPN client software such as NETGEAR's ProSafe VPN Client. The two types of VPN are:

1) VPN Client-to-Server (Client-to-Box):

2) VPN Server-to-Server (Box-to-Box):

The whole purpose of VPN is to prevent data being altered during transfer in tunnels.

OUR PRODUCTS

Fraud in Execution of Civil Work
The Director of Printing, Stationery and Publication, Bangalore during the period August 2003 to August 2006 executed Civil/Electrical work towards construction of Godowns bypassing internal controls subverting the codal provisions given in KTTP Rules 1999, Financial Rules and Public works codes commited a fraud for Rs. 1.67 crore on the basis of fabricated documents.
-March 2010

Misappropriation of Government Money
The joint Director of Sports and Youth Affairs, Itanagar drew an amount of Rs. 27 Lakh on A.C. bill in March 98 for purchase of sports material/equipment. There was no record in support of procurement of equipment and the bill remained unadjusted till June 2006.
-May 2010

In order to reduce the risk of fraud, organizations must develop a climate that reinforces ethical behavior. - Charles F.
In this issue, we present a few red flags and anti-fraud measures for various activities involved in the 'Pension Payment Process'.

<table>
<thead>
<tr>
<th>Red Flags (Fraud indicators)</th>
<th>Anti-fraud measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2 Calculation of Qualifying Service</strong></td>
<td></td>
</tr>
<tr>
<td>2.1 Extra Ordinary Leave (EOL) considered for calculating the qualifying service, but grounds for sanctioning the same was not recorded.</td>
<td>EOL taken on private grounds, period of overstayed leave, joining time are not to be considered as qualifying service.</td>
</tr>
<tr>
<td>2.2 Entry regarding regulation of suspension period not taken with date and period.</td>
<td>As per rules suspension period treated as such or regulated as EOL will not reckon for qualifying service.</td>
</tr>
<tr>
<td>2.3 Date of appointment on daily rated/work-charged establishment not found, but pension case has been processed.</td>
<td>As per provisions minimum five years service on daily rated or work charge establishment is needed for taking on Converted Regular Temporary (CRT) and for appointment on supernumerary post (in respect of forest department).</td>
</tr>
<tr>
<td>2.4 Date on which appointed on converted regular temporary establishment not indicated</td>
<td>As per provisions half service from the date of appointment on daily rated/work charge and date of appointment on CRT establishment is counted for qualifying service and this date must be indicated in the service book.</td>
</tr>
</tbody>
</table>

**Contact us for material**

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Ph. (0712)-2545420, 2545816, 2545829  
Fax: 0712 - 2562577

**Corporate Fraud an Emerging Issue in India**

Ineffective control systems and diminishing ethical values are contributing to the growing prevalence of fraud in India, according to a recent survey by professional service firm KPMG. Titled "India Fraud Survey Report 2010," the examination into corporate India found that 75 percent of those questioned believe that fraud cases had increased over the last two years. The report attributes this perception to the existence of mistrust within companies, individuals striving to achieve personal gains, pressure to meet earnings targets, and lack of control mechanisms.

The survey's respondents were made up of chairman/managing directors, chief financial officers, heads of internal audit and compliance, fraud risk managers, and other senior personnel at close to 1000 leading organizations operating in a wide range of industries throughout India. Among these industry leaders, a discouraging 81 percent believe that financial statement fraud is a major issue facing the country. Regarding the motive, 63 percent indicate a desire to meet or exceed market expectations as a leading cause, while 61 percent feel performance-based remuneration is the underlying instigator. An absence of appropriate repercussions could also be a driver, as indicated by the 62 percent of respondents who believe strict disciplinary actions are not enforced for those who commit financial statement fraud.

In a recessionary environment, cost reduction initiatives increase the potential for internal control breakdown and frauds, especially financial statement fraud.

An astounding 87 percent of individuals surveyed have said that their firms have lost more than Rs1 million to fraud, up from 47 percent in the company's 2008 survey. The perception of the Indian business environment, where 38 percent believe bribery is an integral part of company transactions, is also cause for concern.

**A to Z of Frauds**

*cont. from last issue*

**M - Money Laundering**

Engaging directly or indirectly in a transaction that involves money or property which is proceeds of crime or receiving, processing, conceiving, disguising, transforming, converting, disposing of, removing from, bringing into any territory, money or property that is the proceeds of crime.

**N - Nigerian Scam**

Somebody purporting to be a Nigerian banker contacts you, offering a chance to earn some serious money. Often his bank will be looking after the considerable fortune of a deceased millionaire - from shipping magnate to former president. He says he needs a foreign bank account through which to launder the money - and in return for sending him your bank details for this purpose, he will give you a share of the spoils. Those who fall for this scam never see these promised millions. Instead, their bank accounts are often cleaned out once they have handed over all their details - which include bank account numbers, copies of their passport and driving licence and phone and fax numbers - it is a simple identity theft, dressed up with a tempting lure for the gullible.

*(to be contd.)*