From PD's Desk

It gives me great pleasure and satisfaction in presenting the ninth edition of 'The Forerunner' showcasing the important events taken place in the Institute during the last six months. The 150th year of existence of the institution of the Comptroller & Auditor General of India coincides with the direct recruitment of around 800 Assistant Audit Officers into the Department. RTI Nagpur was allotted 78 probationers for induction training. Along with exposure to basic service rules pertaining to the Indian Audit & Accounts Department, association of eminent personalities who had handled sessions on health management, stress management and time management supplemented to personality development of the Probationary Officers.

As a part of institute's endeavour to disseminate knowledge in the given area of excellence, two more all India workshops on Anti Fraud Framework and Digital Forensics were conducted during the period between October 2010 and March 2011. 19 Group 'A' and 20 Group 'B' officers hailing from different wings of the Audit Department situated in Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan and Tamilnadu had participated. The workshops were well received by all with an overwhelming response.

For the first time in the history of the Regional Training Institute, Nagpur the Hindi Day was celebrated, in which all officers and staff had participated with full enthusiasm and fervour.

Video conferencing is the in thing of the current era. In order to create earnest awareness of operation and handling of our Department's Virtual Private Network (VPN) services, 74 chosen members of our Department from the States of Maharashtra, Madhya Pradesh, Gujarat, Goa were given a one-day workshop at this Institute by the personnel from IBM and Bharati Airtel.

Marching towards the excellence in training...

J. S. Karape
Officer-on-Special-Duty

The Mandate

Headquarters declared this Institute as a Centre of Excellence in 'Audit of Fraud, Fraud Detection Techniques & Forensic Audit' 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.

In this Issue

Memorable moments unfolded

Faculty's Column
☐ Budget Glossary (contd...)
☐ Continuing Professional Education (CPE)

Our Products
☐ A case study on “Fraudulent Payment on Carriage of Stone Chips/Metal
☐ A case study on “Misappropriation of Cash”
☐ A case study on “Fraudulent withdrawal of Govt. Funds”

A to Z of Fraud

Evaluation of Training

Audit of Fraud Matters
☐ Sampling
☐ Hindi Diwas Celebration

Focus Column
☐ Fraud in execution of Road work

Education Column
☐ What is SAP?

Audit Column
☐ Red Flags and Anti-Fraud Measures in ‘Pension Payment Process’. 
☐ It Rained Cyber Crimes in India in 2010

What is new?

Two Induction Courses for DRAAOs Commercial Civil Audit of three months duration each.

Training on Virtual Private Network

RAC Meeting held on 02-Feb-2011

Two All India Workshops on “Anti-Fraud Framework & Digital Forensics” for Gr. A & Gr. B officers.
Shri Prabhat Ranjan, IPS, Special IG, Nagpur addressing at the inaugural function held on 10.01.2011

Shri D. Kanakaratnam, IPS, Joint Commissioner of Police, addressing the inaugural function held on 14.3.2011

1st batch of DRAAOs (Induction Training Programme 1.10.2010 to 31.10.2010) with Principal Director and Core Faculty Members

2nd batch of DRAAOs Induction Programme inaugurated by PD on 3.1.11

2nd batch of DRAAOs with Shri B. Majumdar AG (Audit) II, Mah., Nagpur, Shri J.S. Karape, P. D. and Core Faculty Members on Republic Day

A skit on patriotic theme presented on Republic Day by the 2nd batch of DRAAOs

Valedictory address by Shri Chiranjeev Prasad, IPS, ACP, Nagpur, of the 2nd batch of DRAAOs Induction Training Programme
Budget Glossary

In continuation of previous issues, we now take up the disbursements on Capital Account from the Consolidated Fund. The first part deals with capital expenditure incurred on General, Social and Economic services. Some of the biggest expenditure items under these heads are Defence Services, Investment in agricultural financial institutions and Capital to Railways. The second part takes up the Public Debt (repayments of loans) and various loans by the Government.

The Consolidated Fund has certain disbursements 'Charged' to the fund. These are obligations that have to be met in any case and therefore, do not have to be voted by Lok Sabha. These include interest payments and certain expenditure such as emoluments of the President, salary and allowances of the Speaker of Lok Sabha, Deputy Chairman of the Rajya Sabha and allowances and pensions of Supreme Court Judges, Comptroller & Auditor General of India, etc.

Plan Expenditure: This is the Budget support to the Central Plan and the Central Assistance to state and Union Territory plans. Like all Budget heads, this is also split into Revenue and Capital components.

Non-Plan Expenditure: This is the Revenue Expenditure of the Government. The biggest items of expenditure are interest payments, subsidies, salaries, defence and pension. The capital component of the non-plan expenditure is relatively small with maximum allocation going to defence. We will now take up the various deficits and the components of Plan and Non-Plan expenditure.

Fiscal Deficit: When the Government's non-borrowed receipts fall short of its entire expenditure, it has to borrow money from the public to meet the shortfall. The excess of total expenditure over total non-borrowed receipts is called the Fiscal Deficit.

Primary Deficit: The revenue expenditure induces payments on Government’s earlier borrowings. The primary deficit is the fiscal deficit less interest payments. A shrinking primary deficit indicates progress towards fiscal health. The Budget document also mentions deficit as percentage of GDP. This is to facilitate comparison and also get a proper perspective. Prudent fiscal management requires that government does not borrow to consume in the normal course.

FRBM Act: Enacted in 2003, Fiscal Responsibility and Budget Management Act requires the elimination of revenue deficit by 2008-09. Hence, from 2008-09, the government will have to meet all its revenue expenditure from its revenue receipts. Any borrowing would only be to meet capital expenditure. The Act mandates a 3% limit on the fiscal deficit after 2008-09.

Resources Transferred To The States: A part of the Centre's gross tax collection goes to state government. In the budget 2007-08, the states were to receive nearly 27% of the collections. The Centre also transfers funds to states by way of the support to their plans. It also gives large grants to manage Centrally-Sponsored schemes. The Government counts small saving transfers to State Governments, which are in nature of borrowings, as resources transferred to states. Before March 31, 1999, the Centre used to borrow net accruals to small savings and lend them to the states. From April 1, 1999, states started receiving 75% of net small savings directly; the balance was invested in special government securities dring1999-2000 to 2001-2002. The sums received in the NSS fund on redemption of special securities are being reinvested in special G-section. From April 2002, the entire net collection under small saving schemes in each state and Union Territory are advanced to the concerned State/UT government as investment in its special securities. The Expenditure and Receipts Budget take up the respective heads in greater detail.

Value Added Tax (VAT) and GST: VAT helps to avoid cascading of taxes as a product passes through the different stages of value addition. The tax is based on the difference between the value of the output and inputs used to produce it. The aim is to tax a firm only for the value added by it to the inputs it is using for manufacturing its output and not the entire input cost. VAT brings in transparency to commodity taxation.

(continued)

### Continuing Professional Education (CPE)
(Institute's Faculty trained between October 2010 & March 2011)

<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>Training on usage of VPN</td>
<td>Regional Training Institute, Nagpur</td>
</tr>
<tr>
<td>P.P. Ghar, SAO &amp; CF</td>
<td>Training on usage of VPN</td>
<td>Regional Training Institute, Nagpur</td>
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<tr>
<td>D. Varghese, SAO &amp; CF</td>
<td>Training on usage of VPN</td>
<td>Regional Training Institute, Nagpur</td>
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<tr>
<td>G.K. Ome, AAO &amp; CF</td>
<td>Training on usage of VPN</td>
<td>Regional Training Institute, Nagpur</td>
</tr>
<tr>
<td>M.M. Athawale, PS to PD</td>
<td>Training on usage of VPN</td>
<td>Regional Training Institute, Nagpur</td>
</tr>
<tr>
<td>P.P. Ghar, SAO &amp; CF</td>
<td>Management of Training</td>
<td>ISTM, New Delhi</td>
</tr>
</tbody>
</table>
Our Products

This Case study deals with Failure of Executive Engineer Rural Works Department Sitamarhi (Bihar) to exercise the genuineness of procurement from the specified quarry led to fraudulent payment on carriage of stone Chips/Metal of Rs. 23.32 lakh.

This Case study deals with lack of internal control mechanism, failure of the Block Development Officer (BDO) to check the cash balance and do physical verification of cash led to misappropriation of Government money Rs. 65.45 lakh by cashier at Rahika (Madhubani).

Contact us for material

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Fax: 0712 - 2562577

A to Z of Fraud

R - Recovery scam – Scammers pose as law enforcement officials who have recovered the money you paid to a scammer and can return it to you. Of course there's a fee, how else will they get more out of you? We hate this type of scam with a passion as it is often used to get a second bite of the cherry from someone who has already lost a fortune to fraudsters.

S - Spam – Be it Viagra, Rolex watches or a great deal on the latest gadget, the spammers have it all. You'll probably end up with a dangerous fake drug, a mickey mouse watch or just losing your money altogether, but hey, they don't care, they're laughing all the way to the bank! We believe the origin of the term “Spam” as it applies to email has something to do with Monty Python, but we'll leave you to google it!

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 April '10 to September '10 are depicted below.

Overall Rating of the Courses conducted during Oct. '10 to March '11

<table>
<thead>
<tr>
<th>IS Based Courses</th>
<th>General Courses</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;A&quot; Grade 78%</td>
<td>A Grade (28%)</td>
</tr>
<tr>
<td>&quot;B&quot; Grade 22%</td>
<td>C Grade (10%)</td>
</tr>
</tbody>
</table>

Performance of Participants

<table>
<thead>
<tr>
<th>IS Courses</th>
<th>General Courses</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;A&quot; Grade (90% &amp; above)</td>
<td>&quot;B&quot; Grade (75% &amp; above)</td>
</tr>
<tr>
<td>&quot;B&quot; Grade (80% -89%)</td>
<td>&quot;B&quot; Grade (60% -74%)</td>
</tr>
<tr>
<td>&quot;C&quot; Grade (50% -59%)</td>
<td>&quot;C&quot; Grade (10%)</td>
</tr>
</tbody>
</table>

The more gross the fraud the more glibly will it go down, and the more greedily be swallowed, since folly will always find faith where imposters will find imprudence. - Charles Celeb Colton
Meaning of Sampling

Audit sampling is the application of an audit procedure to less than 100 percent of the items within a class of transaction or an account balance to enable the auditor to form certain conclusions about that class or balance as a whole.

An auditor can apply sampling in carrying out both compliance procedures (to review and evaluate effectiveness of internal control systems) and substantive procedures (to obtain evidence regarding the completeness, accuracy, and validity of the data).

Need for Sampling

The number of transactions, particularly in the case of large enterprises, is so enormous that it may physically be impossible for the auditor to check all of them. By selecting certain representative transactions and examining them in depth, an auditor can form a better opinion than by mechanically ticking all of them. Sampling, therefore, is an important auditing technique since it enables the auditor to select some transactions out of the large mass of repetitive data in a manner that results in drawing valid conclusions about the entire data after a thorough examination of the selected transactions.

Sampling Risk

A risk is no doubt involved in selecting and checking only some items in order to reach a conclusion about all of them. Sampling risk arises from the possibility that the auditor's conclusion, based on a sample, may be different from the conclusion he would reach if the entire population were subjected to the same audit procedure.

While evaluating the internal control systems through compliance tests, an auditor may take the Risk of Under Reliance (where the sample results point to unreliable internal control while in totality a reliable system may bin position) or Over Reliance (where the sample results point to reliable internal control while in totality a system may be unreliable).

Despite these risks, sampling is a useful audit technique. Sampling does not in anyway reduce the auditor's responsibility. Sampling cannot be a cover to hide negligence. The standard of reasonable care and skill is applicable in all cases and one should see whether the extent of sampling was reasonable so as to enable the auditor to form an opinion.

(to be contd.)

HINDI DIWAS celebrated for the first time in RTI, Nagpur

Principal Director and Chief Guest with staff of Institute on Hindi Diwas Samaroh

Staff participating in Hindi Diwas Competition

For the most part fraud in the end secures for its companions repentance and shame - Charles Simmons
Fraud in execution of Road work

1) Background

The works of strengthening of road crust in respect of following roads were awarded to six contractors between March 2003 and November 2006 under Pradhan Mantri Gram Sadak Yojna by Public Works Department, Bihar as given below.

i. Strengthening road crust in 17.5 to 27.3 Km of Supaul Singhswar Road (Work A)

ii. Special repair work of South/North lane of Bailey road, Patna from Railway crossing to Jagdeo path (Work B)

iii. Improvement of Kataiya – Panchdewari road via Bhaisia more than 6 Km to 10 Km (Work C)

iv. Widening and strengthening in 10 Km length of Raniganj Aijan via Chaukara Parsawalna (Work D)

v. Special repair in 2nd to 4th, 6 (P), 7th, 11th and 12(P) Km of Maltipur – Daulatpur road (Work E)

2) Fraud Environment

The Executive engineer in charge of work did not insist contractors to submit the required documents as per special condition of contract regarding procurement of bitumen from the Government of India under takings. The officers in charge of work recorded the quantity of material used and its quality without verifying the required specifications. The fraudster took the advantage of this casual approach of the division which led to fraudulent payment of Rs. 63.90 lakh and substandard work.

3) Opportunity to prevent fraud

Following internal controls could have avoided the fraud and execution of substandard work.

3.1 As per special condition of contract, clause 18(b) & (c) the contractors should be insisted to submit the document within 48 hours of receipt of bitumen from Oil Company.

3.2 To check whether the contractor submit the form M and N duly filled as per Bihar Mines and Mineral Act 1972 (clause 28)

3.3 The material should be used on work after quality test was found satisfactory

3.4 To check the actual quantities received and used on the work agrees

3.5 Payment should be released only if all conditions were fulfilled.

4) Act of fraud

The contractor noticed that the Executive Engineer of the Division and Engineer in charge of the road work were not diligent about cross check of quantities of bitumen and stone metal grade III purchased at the time of taking measurement. They also observed that the necessary documents required as per the contract and also Bihar Mines Act, 1972 and test reports of quality were not insisted before release of payment. This led to fraud of Rs. 63.90 lakh and execution of substandard work.

5) Opportunity to detect and proving fraud

5.1 Red Flags indicators: Audit Party of Office of the Principal Accountant General (Audit) Bihar, Patna test checked (Aug 2006, Oct 2006, Nov 2006 and May 2007) the record of division's in charge of above works found many irregularities in releasing the payment to contractor for the above work.

5.2 Follow up on Red flags: Acting on the Red flags the records such as measurement books, R.A. Bills with reference to condition of Contract Agreement were obtained, for audit examination and evidence gathering. A large number of irregularities, discrepancies and clear fraud indication gave a clear picture of fraud.

5.3 Against total requirement of 1053.48 MT bitumen challans of only 858.38 MT bitumen were available.

5.4 The total requirement of 1705.35 cum stone metal grade III no challans towards receipt of stones were available in the division.

5.5 The facts were cross checked and confirmed from Oil Company and mining office, that less quantity of bitumen was lifted and no stone metal was lifted resulting in fraud of Rs. 63.90 lakh.

5.6 The quality test report and supporting vouchers in respect of purchase of other materials were also not available.

5.7 The works were executed without test check of quality and quantity of bitumen and SMG III

6) Lesson learnt

6.1 The engineer in charge of site failed to record the measurement with reference to material actually supplied and used on work while taking measurement.

6.2 The requirement of challans from Oil Company and mining office were not given importance before releasing payments.

6.3 The above facts were also gone unnoticed while recording check measurement by Asst. Engineer/ Deputy Engineer/ Executive Engineer.
What is SAP?

The name SAP is an acronym for Systems, Applications and Products in Data Processing. SAP is a software product capable of integrating multiple business applications, with each application representing a specific business area. These applications update and process transactions in real time mode.

Need of SAP

Before the advent of SAP, the system, which is being used to automate and integrate all facets of business operations, including planning, manufacturing and sales was known as Enterprise Resource Planning (ERP).

An ERP system is used to integrate several data sources and processes, such as manufacturing, controlling and distribution of goods of a company. This integration is achieved by using various hardware and software components.

An ERP system is primarily module based, which means that it consists of various modular software applications or modules. The business modules were not interconnected or integrated and updating as well as sharing data across these modules was a big problem. Customization, switching to another ERP after the establishment of an ERP system, consolidation etc were some major drawbacks of ERP system.

SAP was introduced to overcome all drawbacks of contemporary ERP System.

History of SAP

The development process of SAP began in 1972, with five IBM employees Dietmar Hopp, Hans-Werner Hector, Hasso Plattner, Klaus Tschira and Claus Wellenreuther in Mannheim, Germany.

A year later, the first financial and accounting software was developed. This software formed the basis for continuous development which later came to be known as SAP R/1 system. Here “R” stands for Real time data processing and 1 indicates the single tier architecture, which means that the three networking layers, Presentation, Application, and Database, on which the architecture of SAP depends, are implemented on a single system.

Introducing SAP R/2

The SAP R/2 system, introduced in 1980, was based on the two tier architecture and was designed to work on mainframe databases, such as DB/2, IMS and Adabas. The two tier client-server architecture of the SAP R/2 system enabled a SAP client to connect to a SAP server to access the data stored in the SAP database.

Introducing SAP R/3

SAP R/3, based on the client-server model, was officially launched on July 6, 1992. This version is compatible with multiple platforms and operating systems, such as UNIX and Windows. The three-tier architecture consists the Database layer, the Application layer, and the Presentation layer. It allows user to make changes or scale a particular layer in the client-server model, without making changes in the entire system.

The SAP R/3 system is a customized software with predefined features, various standard tables to execute various process and the tables can be configured as per user requirement. The data related to these tables is managed with the help of the dictionary of the SAP R/3 system, which is stored in a SAP database and can be accessed by all the application programs of SAP.

The SAP R/3 system can run on various platforms, such as Microsoft Windows and Unix and supports various relational databases, such as Oracle, Adabas, Informix and Microsoft SQL server.

SAP runs on a fourth generation programming language(4GL) called Advance Business Application Programming(ABAP). It has many of the features of other modern programming languages such as the familiar C, Visual Basic and Power Builder.

Categories of SAP

- SAP are categorized into 3 core functional areas:
  - **Logistics**
    - Sales and Distribution (SD)
    - Material Management (MM)
    - Warehouse Management (WM)
    - Production Planning (PP)
    - General Logistics (LO)
    - Quality Management (QM)
  - **Financial**
    - Financial Accounting (FI)
    - Controlling (CO)
    - Enterprise Controlling (EC)
    - Investment Management (IM)
    - Treasury (TR)
  - **Human Resources**
    - Personnel Administration (PA)
    - Personnel Development (PD)

(to be continued.)
In continuation of our earlier issues a few more red flags and anti-fraud measures for various activities involved in the 'Pension Payment Process' are presented below:

<table>
<thead>
<tr>
<th>Red Flags (Fraud indicators)</th>
<th>Preventive</th>
<th>Anti-fraud measures</th>
<th>Detective</th>
</tr>
</thead>
</table>
| 2.9 A case of an employee on foreign service was processed but relevant entry in the service book about recovery of pension/leave salary contribution is missing. | Service rendered on foreign service shall not count for pension unless pension contribution and leave salary contribution is recovered | 1. Select the list of employees retired who were on Foreign Service.  
2. Verify whether the employees opted for counting Foreign Service for pension.  
3. Verify whether the service book and proposal for reporting of rate of pension/leave salary contribution was sent to the concerned Accountant Generals office.  
4. Check from conditions whether it warrants sending the contribution to AG.  
5. Comment on the cases of deviation. |

3. Calculation of Average Emoluments

| 3.1 Entry about verification of pay by Pay Verification Unit/Sr. Auditor Zilla Parishad/Higher Education not sighted | 1. Authenticity of correctness of pay fixation could be ensured from the certificate of pay verification unit.  
2. A pensionable pay calculation during the last ten months average emoluments depends on the above information. | 1. Segregate the service books of retired employees and verify whether pay verification by Pay Verification Unit/Sr. Auditor Zilla Parishad/Higher Education was done.  
2. Ascertain the reasons for not sending service books to pay verification unit.  
3. Comment on the cases of deviation. |

| 3.2 Certificate of competent authority about continuation to officiate in higher post but for proceeding on leave not sighted. | Pay drawn at higher rate in officiating post cannot be considered for the purpose of last ten months average emoluments in absence of a certificate | 1. Select the list of employees resigned from their service.  
2. Verify from their records about the nature of resignation.  
3. If the resignation was technical, verify whether service rendered previously was pensionable.  
4. Comment in case of deviation, if any. (to be contd.) |

It Rained Cyber Crimes in India in 2010

There is no dearth of cyber crime cases in India. The latest to make the headline is the big number of cyber crimes that were reported in the state of Andhra Pradesh alone in 2010. Business Standard put the figure at three cases per week, which literally zeroes down at about 150 cases altogether. According to the state crime investigation department, most of the cases are those of Nigerian scams that are presently doing round on the internet. The figure has also increased by 20% from last year.

The latest case is of a resident of Bhimavaram in West Godavari district of Andhra Pradesh. He was duped of Rs 15.88 lakh to claim a huge sum of 700,000 pounds from a scam, termed “Microsoft Lottery”. Surprisingly enough, the Nigerian culprits asked the victim, on phone, to deposit the sum in two Indian banks accounts viz. ICICI Bank and Axis Bank claiming it to be the charges for “RBI Clearance”, “anti-terrorism clearance” etc. And know what, he was also given receipts for the transactions, thereby literally nullifying any possible doubts on the part of the victim.

The modus operandi of these scammers is simple. They have email IDs of tens of thousands of people to which they repeatedly send emails in batches cooking up fictional stories. Once some unsuspecting and ordinary people respond to these mails, they get them to pay a large sum of money in the name of processing fee for a supposedly huge amount of money. Even a small percentage of conversion will make them earn handsomely without much hard work. Nowadays, they have even started circulating such messages via SMSes.