

CHAPTER VI: MINISTRY OF DEVELOPMENT OF NORTH EASTERN REGION

North Eastern Regional Agricultural Marketing Corporation Limited

6.1 Misappropriation of cash

Poor internal controls and non-observance of the bank operation mandate resulted in fraudulent withdrawal of ₹ 1.41 lakh from the bank accounts of North Eastern Regional Agricultural Marketing Corporation Limited.

North Eastern Regional Agricultural Marketing Corporation Limited (Company) maintained current accounts with several banks such as State Bank of India, New Guwahati (SBI) and Union Bank of India, Guwahati (UBI) and withdrew cash from the current accounts through cheques drawn on self for making petty payments during the course of its day-to-day operations. Test check of records pertaining to the period from April 2010 to March 2013 revealed that four cash withdrawals aggregating ₹ 1.41 lakh were made during April 2010 to June 2010. These included one withdrawal of ₹ 41,000 (12 April 2010) from the Company's account with SBI and three withdrawals of ₹ 30,000 (06 May 2010), ₹ 50,000 (17 May 2010) and ₹ 20,000 (03 June 2010) from its account with UBI.

Audit observed (November 2013) that the entries for the above four cash withdrawals were not recorded in the cash book. The requisite entries in the cheque issue register were also not recorded in respect of all the withdrawals, except that for ₹ 41,000. Besides, there was no system of preparing monthly statements showing reconciliation between bank statements and cash book, due to which the cash withdrawals of ₹ 1.41 lakh remained undetected during the period from June 2010 to November 2013. The bank reconciliation statements for the years 2009-10 to 2011-12 were not available in the records of the Company; hence Audit could not verify as to how unaccounted withdrawal of ₹ 1.41 lakh was dealt with and reconciled by the Management. Audit further observed that the Statutory Auditor of the Company had reported (August 2012) that the latter had not prepared any comprehensive accounting manual laying down the rules for financial accounting and delegation of financial powers, etc.

Further, as per the bank operation mandate of the Company, the cheques issued in the name of the Company should be signed by two authorised signatories viz. the Managing Director (MD) and the General Manager (Finance and Accounts) (GM-F&A). Audit, however, observed that the self cheque for withdrawal of ₹ 41,000 was issued (31 March 2010) under the joint authorisation of the then GM (F&A) and the then MD while those for the other three withdrawals of ₹ 1 lakh were issued under the single authorisation of the then GM (F&A) only. It was further noticed that in respect of the three withdrawals amounting to ₹ 1 lakh made during May 2010 and June 2010, the then GM (F&A) had requested the bank to clear the cheques under his signature only on the ground that the other signatory i.e. the then MD was out of station for official work. The Management,

however, confirmed (November 2013) that the then MD was available in the office on 17 May 2010 i.e. on the date of withdrawal of ₹ 50,000.

Thus, not recording entries of daily cash withdrawals in the cash book and poor internal controls such as issue of cheques without entering in cheque issue register, non-preparation of monthly bank reconciliation statements, non-observance of the bank operation mandate by the Management resulted in misappropriation of cash to the extent of ₹ 1.41 lakh. No disciplinary action was taken by the Company against the delinquent official.

On being pointed out (November 2013) by Audit, the Management stated (March 2014) that a notice for recovery was sent (February 2014) by the Company to the then GM (F&A) wherein he was asked to deposit a sum of ₹ one lakh along with interest at the rate of 28 *per cent* per annum from the date of withdrawal to the date of deposit. The then GM refunded (February 2014) the amount of ₹ one lakh to the Company and requested for waiver of interest. The Management further stated (April 2014) that a notice had been issued to the then GM to repay the balance amount of ₹ 41,000 together with interest on the total amount of ₹ 1.41 lakh at the rate of 14.5 *per cent* per annum from the date of withdrawal of money. However, the latter refused (May 2014) to repay the amount and stated that the same was drawn by the then cashier for specific purposes as mentioned in the cheque issue register.

Audit, however, observed that the Company did not take any further action for recovery of the balance amount of ₹ 41,000. Further, the rate of recoverable penal interest was reduced from 28 *per cent* per annum to 14.5 *per cent* per annum without recording any justification for the same. On being enquired, the Management stated (July 2014) that the decision was taken by the former MD and no reasons were available on record for that decision.

Thus, poor internal controls over cash and bank transactions resulted in fraudulent withdrawal and misappropriation of cash to the extent of ₹ 1.41 lakh. Although an amount of ₹ 1 lakh has been recovered at the instance of audit, the remaining amount of ₹ 41,000 along with penal interest on the total amount of ₹ 1.41 lakh was still pending for recovery (July 2014).

The Ministry, in its interim reply, stated (November 2014) that it did not accept the comments received from the Company in the matter and had sought pending action on inquiry outcomes and inquiry report from the Company. The Ministry would submit reply to Audit on receipt of a satisfactory report from the Company.