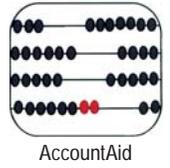


AccountAble™

9. The Risk with Cheques

Apr-May '08



IN THIS ISSUE

Ways of the Wicked • 1. Alteration of Cheques • Recovering the Money pg1

Bearer or A/c Payee? • 2. Theft of Cheques • The *Bahrupia* Postmen • The Courier Menace pg3

Cheques that you send out pg4

Over the last few years, there has been a big increase in use of cheques. This is part of Government policy to encourage growth of banking habits. Annual volume of cheques cleared in India is currently estimated at 1.2 arab cheques¹. The National Capital Region alone sees about 6 lakh cheques being cleared daily!

There are many advantages in using a cheque, instead of cash. There is less risk of your pocket being picked, or your office being burgled. It provides an automatic third party record also. This is very useful for audit and tax assessment.

But there is some risk also in using cheques. This revised issue of AccountAble discusses this. It also suggests ways to minimize the risk.

Ways of the Wicked

What are the ways in which people can cheat you through a cheque?

Alteration of the cheque is one, theft of cheques is another.

1. Alteration of Cheques

This is one of the oldest tricks. You give someone a bearer cheque, after filling the amount in words and figures, and sign it.

That person changes the amount in some way. This could be done by altering the figures and words. After this he or she encashes the cheque and disappears with the money. For instance,

seven thousand can be changed rather easily to seventy thousand by adding a zero, and the letters 'ty':

seventy 70000

Or if an account payee cheque gets into the wrong hands, they could change the name of the payee and collect the amount.

As this trick has been around for many years, the banks have developed several ways to make this difficult.

But you also need to help the bank in this effort. Some ways to make sure that your cheque is not altered are shown in the graphic on page 2.

Recovering the Money

Let us go back to the above case. You had originally made out the cheque for Rs.7000 only. Someone changed the word 'seven' to 'seventy'. He also added a zero to 7000, making it 70000. This alteration is done very cleverly². It could not have been noticed without very careful examination. The bank paid

Rs.70,000 to this person. Can you recover the difference from the bank? No, you cannot!

Section 89 of the Negotiable Instrument Act protects the banker in such a case. Only exception

¹ 1,20,00,00,000; 1.2 billion. Source: www.rediff.com; Interview dtd. 21-Feb-2008 with South Asia General Manager, Sh. Navroze Dastur of NCR Corp ('What is cheque truncation all about?')

² You were also careless enough to leave space for this insertion.



www.AccountAid.net

Crossing the cheque

- Cross the cheque here, at top left hand.
- The crossing should cover some of the shaded portion also.

Name of the Payee

- Put the full name of the persons or firm.
- Add the bank account number and bank name, if known.
- Cross out any blank spaces after the name.
- Always write in ink (ball point or fountain pen).

The amount in words

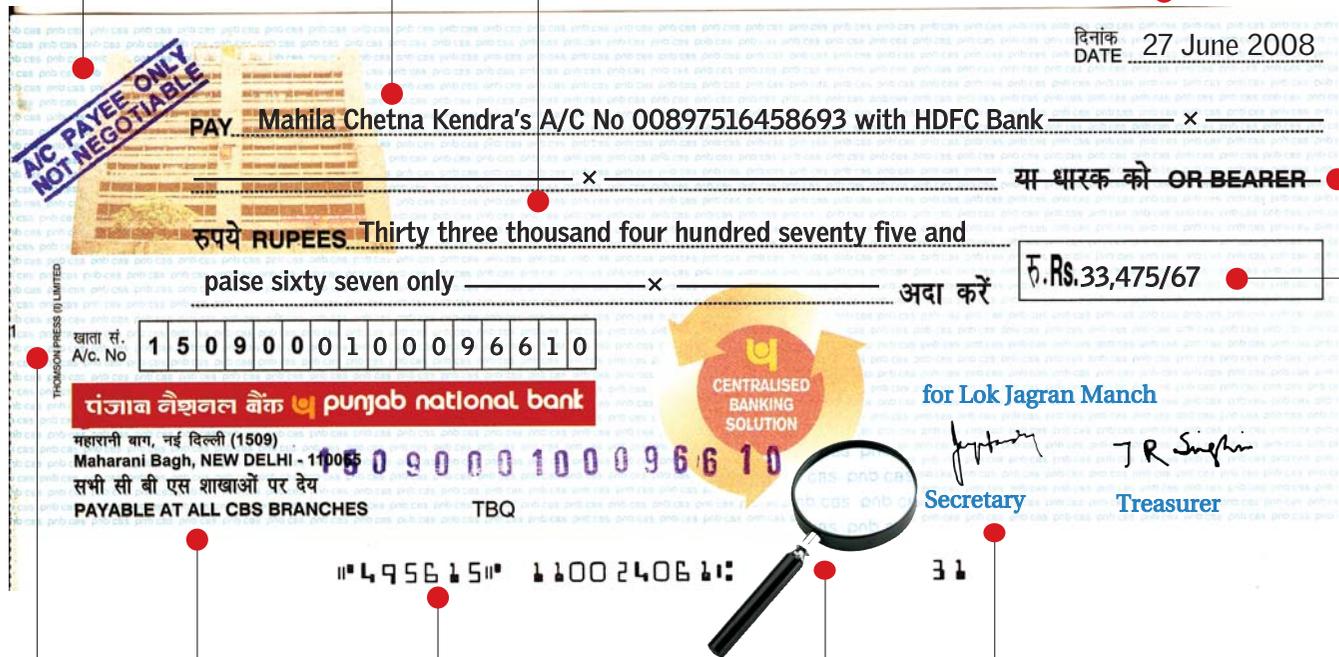
- If amount includes paise, write the paise as 'and paise sixty seven only'.
- At the end of the amount say 'only'.
- Cross out the blank portion after the amount like this.

Bearer cheque

- If the cheque is to be deposited in a bank, these words should be crossed out.
- If you want to withdraw cash from the bank, don't cross out these words.
- If a bearer cheque is made out to self, put the society's stamp on reverse and sign again.

Date of the cheque

- Your cheque is valid for six months from this date.
- A cheque with a wrong date (31 September) may be returned by the bank.
- Write the month in full (such as January or June).



Your bank account number appears here.

Name of the bank

- This is the name of the bank which issued the cheque book.
- When you deposit a cheque, you have to give the name of the bank and branch on the pay-in slip.

Cheque number

- When depositing a cheque, you have to write the cheque number on deposit slip.
- The funny markings on both ends of this number should be ignored.

Safety pattern

This is how the pattern on your cheque looks when magnified. It helps prevent alterations. Any erasure or use of chemicals will leave a mark on the pattern.

Signing the cheque

- Society's stamp is necessary.
- Signatures should not spill into the white band below.

The amount in figures

- Do not leave any gap between 'Rs.' and the first figure.
- If the amount includes paise, use a '/' to separate rupees and paise (such as 33,475/67).
- If amount does not include paise, put a slash at the end, followed by '=' (such as 33,475/=).
- Use a slash (/) instead of a decimal point (.).
- Use commas to separate thousands.

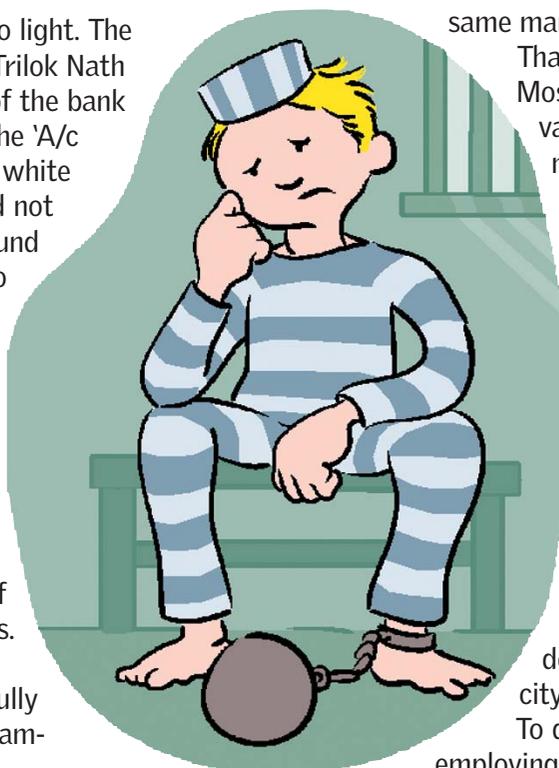
is where you can prove that the bank was careless on other counts—for example if the person who encashed the cheque looked like a beggar. Or that one of the bank employees had made the alteration, as in the case of Sh. Trilok Nath Sood.

Bearer or A/C Payee?

In 1948, Bank of India paid Rs. 25,000 in cash to a person over the counter. This was a bearer cheque favoring Sh. Krishna Baldev. However, Sh. Baldev denied receiving the money. The publishing firm also insisted that it had issued an 'A/c Payee Cheque'. The cheque, however, did not bear any such crossing.

Later the story came to light. The cheque had come to Sh. Trilok Nath Sood, Chief Accountant of the bank for initials. He saw that the 'A/c Payee' stamp was on the white edge of the cheque. It did not cover any of the background pattern on the cheque. So he erased the crossing with Benzene. The pattern was not disturbed. Then he initialed the cheque and collected the payment in cash, being himself a top official of the bank. Sh. Sood received a jail sentence of seven years for his efforts.

You should, therefore, make your cheques carefully so that these cannot be tampered easily.



2. Theft of Cheques

In the good old days, cheques used to be stolen sometimes if sent by ordinary post. One particular case was very interesting.

The Bahurupia Postmen

This happened during Emergency, in 1976. Two persons, Lalit Kumar and Radhey Shyam put on the khaki uniform of postmen. Then they went around stealing mail from letter boxes placed at selected locations. Later they would open these

and take out things which were useful for them. One day they got a signed cheque of Jnanpith Sansthan (ज्ञानपीठ संस्थान).

First they printed an exact copy of the requisition slip. Then they forged the signatures and obtained a cheque book from Syndicate Bank. Then they started forging bearer cheques of Jnanpith Sansthan. In ten days, they managed to draw seventy thousand from the account. The next cheque was for forty thousand. The bank got suspicious and the balloon went up. But the bank had already lost seventy thousand rupees.

Later, it was discovered that these people had defrauded several banks of lakhs of rupees in the same manner.

That was in another age and time. Most people now prefer to use private couriers. Ordinary mail is now used mainly for bulk mailing. But stealing of cheques continues. In fact, the increasing use of couriers has made this more widespread.

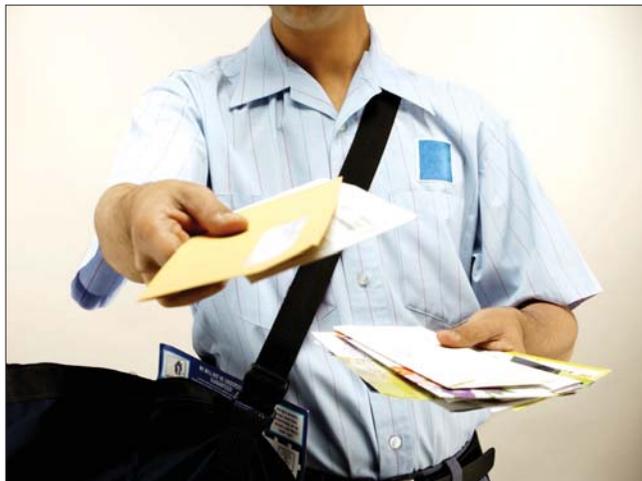
The Courier Menace

Our experience shows that if you send out money (cash) or anything valuable through a courier, you are likely to lose it. This is very common among the cheaper services, who will charge you just Rs.10-45, to deliver almost anywhere in the city or in India.

To do this, they cut several corners, employing people at extremely low wages. They also network with other courier services. As a result, they have very little control over who handles the packets.

In some cases, the envelopes are scanned to detect currency or anything valuable³. These are

³ In one case, a local courier in Delhi stole three books out of six, each worth Rs.50. The packet was resealed and delivered to the addressee. Later when the theft was discovered and reported to the courier agency, they were unable to help. As it was a low-value theft, the sender also did not bother to follow-up.



then simply cut open and the money stolen. The courier will then often simply staple the envelope and deliver it to the addressee. Even if the addressee figures out that something has been stolen, you can't really do much to recover it.

Cheques that you send out

If you send out a cheque by ordinary post or local courier, there is a fair risk of losing it. The postal

rules, therefore, say that cheques must only be sent by registered post.

However, sometimes even this does not help. In one case, Indo Aid sent a crossed account payee draft by registered post to an NGO called PRAKRITI. The envelope was opened at an RMS⁴ station, and the draft stolen. The empty envelope was delivered to PRAKRITI. PRAKRITI's accountant then called up Indo Aid's office and reported the matter.

By the time Indo Aid started follow-up, the thief had coolly walked into a bank, and opened a bank account with IDFC in the name of Prakriti, an individual. The draft was collected in two days, and the money withdrawn.

Though this happened three years ago (and a police case registered), the money has not been recovered so far.

What can be done to prevent this? Should we go back to carrying the money in sacks? In AccountAble 12, we discuss ways to protect yourself.

⁴ Railway Mail Service

What is AccountAble?

Each issue of 'AccountAble' covers a different topic related to NGO regulation or accounting and is mailed to about 4,500 persons in NGOs, Agencies and audit firms. AccountAid encourages reproduction or re-distribution of 'AccountAble' in workshops or NGO newsletters for non-commercial use, provided the source is acknowledged.

AccountAble in Hindi

अकाउण्टेबल हिन्दी में 'लेखा-योग' के नाम से उपलब्ध है।

Interpretation of law

Interpretation of law given here is of a general nature. Please consult your advisors before taking any important decision.

AccountAble on the Web

All the past issues of 'AccountAble' are available on our web-site www.AccountAid.net. To get e-mail notification about uploading of new AccountAble issues, send a blank e-mail to accountable-subscribe@topica.com. Topica will then send you a verification mail. Respond to this in order to start your subscription.

AccountAid Capsules

Short items of information on NGO accounting and related issues. To subscribe, send e-mail to accountaid-subscribe@topica.com. Topica will then send you a verification mail.

Respond to this in order to start your subscription.

Your Accounts On Internet

Your accounts can be summarised and published on Internet. You can also include them in your annual report. Examples can be seen at www.AccountAid.net. For details, write to accountaid@gmail.com.

Questions and doubts?

AccountAid provides complimentary advice to implementing NGOs and NGO auditors on matters related to accounting or financial regulation. You can send your questions by e-mail or letter. You can also discuss these over the phone.

Comments

Your comments and suggestions can be sent to AccountAid India, 55-B, Pocket C, Siddharth Extension, New Delhi - 110 014; Phone: 011-2634 3128; Phone/Fax: 011-2634 3852; e-mail: accountaid@gmail.com

© AccountAid™ India विक्रम संवत् २०६५ वैशाख, May 2008 CE

Printed and published by Sh. Anil Baranwal for AccountAid India, New Delhi. Ph. 26343128 and printed at Chanakya Mudrak Pvt. Ltd., New Delhi. Ph.: 41420316, 25927951

Design: Ms. Moushumi De

For private circulation only.

dSA/rCM, AB, SM, RS/sAB/cAB/cdSA/cpAB