

AccountAble

Blank Cheques

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Signing Blank Cheques

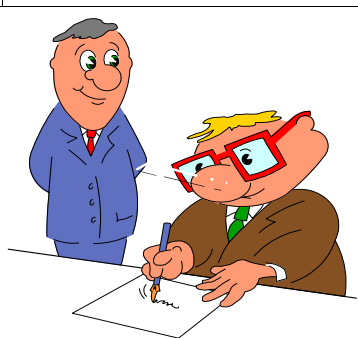
Normally money can be drawn from the bank only when two trustees (or Governing Body members) sign the cheque. When both trustees are available in the office regularly, this is not a problem. But when one of them goes on a tour, a problem arises.

In some case, one of the trustees who signs may not be present in the office of the NGO on a daily basis. Again a problem arises because his / her signatures are required frequently. Someone has to visit him / her every other day with the cheques for signatures.

To get over this problem, quite often, one of the trustees signs a few blank cheques at a time and leaves them in the office. If you think about this practice carefully, you will find that this is very dangerous.

Signing blank cheques is a very common practice amongst NGO's.

Mostly this is done due to practical reasons, such as a long outstation trip or one of the signatories living in another town.



A Safer Alternative

Most of the payments are very small, less than Rs.5,000 each. Emergency cash requirements are also small. The Society can therefore adopt a system where cheques below Rs.2,000 (or Rs.5000) can be signed by either of the trustees. Cheques for higher amounts will have to be signed by both the trustees as earlier.

This is a system which is very common with large companies where hundreds of payments are made every day. It makes work simpler while maintaining a reasonable degree of security.

What you need to do

At the next meeting of the Board or Executive Committee, pass a simple resolution (specimen overleaf). Give a certified copy of this resolution to the bank manager who will ask for some papers to be signed. He / she may also suggest some modifications in the wording of the resolution according to bank policy.

Shankar's Self-Help Program

Gujarat, December 1992: There were two trustees - Vijay and Lata. Signatures of both the trustees were required on each cheque. Vijay used to travel frequently. He used to put his signatures on several blank cheques before going on a trip. Lata then would sign the cheque as and when required. Shankar (the cashier) used to then withdraw the money for the Trust.

One day Shankar decided to help himself to some money. He forged Lata's signatures on one of blank cheques (already signed by Vijay) and withdrew Rs.20,000. The bank officers did not get worried about the variation in signatures because *a.* Vijay's signatures were genuine, and *b.* they knew Shankar.

The fraud was discovered only six months later. Part of the money was recovered from Shankar.

Real story; All names changed

Many people feel uncomfortable in signing blank cheques. But this practice has continued due to lack of a practical alternative.

Here we discuss one of the ways by which the risks of signing blank cheques can be minimized.

Faithfully Yours...

West Bengal, 1989-1996: Mr. Chatterjee had a lot of faith in his friends and colleagues. That's why he would sign as treasurer of the society whenever they sent him some cheques. Later they started sending him blank cheques. The friendship and the faith continued.

Therefore, Mr. Chatterjee got a shock when he received court summons in 1989. He was accused of having siphoned off Rs. 12 lacs over a period of 5 years.

Mr. Chatterjee had a tough time proving to the court that he had signed blank cheques in 'absolute faith'. His name was cleared only after seven years of court appearances.

Real story; All names changed

Bank Resolution

Certified True Copy of Resolution
passed at Meeting of Board of
Trustees / Governing Body of
_____ (name of NGO)
on _____ (date)

“Resolved that with respect to the Savings Account No. _____ in the name of the Society / Trust being maintained with the _____ Bank, _____ (Address of Bank) and that the said bank be and is hereby authorized to honor all cheques, Bills of Exchange, promissory notes drawn, accepted and all negotiable instruments whatsoever made and signed on behalf of the Society / Trust either by Ms./Mr. _____ (name), _____ (designation), or by Ms./Mr. _____ (name), _____ (designation), of the Society / Trust, **provided that the value of any such individual instrument does not exceed Rs. _____ (Rupees _____ thousand only).**

Also resolved that the said bank be and is hereby authorized to honor all cheques, Bills of Exchange, promissory notes drawn, accepted and all negotiable instruments whatsoever made and signed on behalf of the Society / Trust, jointly by Ms./Mr. _____ (name), _____ (designation), and Ms./Mr. _____ (name), _____ (designation), of the Society / Trust irrespective of the value of any such individual instrument.

Resolved further that the above resolution be communicated to the said Bank and is to remain in force until the same is canceled or modified by the Board of Trustees / Governing Body by another resolution and extract whereof forwarded to the Bankers by the Chairperson / President / Secretary / Treasurer / Trustee of the Society / Trust.”

Amending Bylaws

In some cases, your bylaws may not permit this kind of bank resolution. Then you will have to amend these.

Therefore, before passing the bank resolution,, check the Memorandum and Bylaws of Association. There you may find a clause which says that such and such office-bearers will be authorized to sign the cheques.

If you find such a clause, then you can not follow the above procedure right away. You will have to first call a General Meeting and change your bylaws to say the following:

“ bank accounts in the name of the Society may be operated by such persons as are authorized by a resolution of the Board/ Executive Committee, which should have been passed at a meeting attended by not less than 75% of the members of the Board/ Executive Committee....”

After passing this resolution, you will have to register the change with the Registrar of Societies in your state. The procedure for this varies from state to state.

The bank will ask for a copy of the amended bylaws before registering your new resolution.

Note: In some states, the registrars may object to this amendment. If this happens in your case, please write to us for additional reference material

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