

**KOLLURU N RAO**

**A HAND BOOK ON**

**FRAUDS**



**ALL YOU WANT TO KNOW ABOUT FRAUDS**

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## 1. MEANING OF FRAUD

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**A** Fraud is a deception by a person or group of persons to secure unfair or unlawful gain at the cost of “VICTIM” who trusted such a person viz. the Fraudster.

“ . . . . . The nature of fraud is that it works outside your field of vision subverting the normal checks and balances so that the world changes while the picture remains the same. . . . .” (Ref: *Lying for Money by Dan Davis*).

“A false representation of a material fact, either a misstatement or omission, with knowledge that the representation is false with total disregard for truth”.

“Fraud is simple for lying”.

“Fraud is a legal concept but not an accounting concept”.

“The incidence of fraud is so common that its occurrence is no longer remarkable, only its scale. . . .” (Alvin Toffler).

Fraud is a deliberate and deceitful activity in order to gain an advantage or generate a profit, where the “Victim” of fraud, places full trust and believes, the person, committing the fraud.

“Fraud is all about people”.

“Fraud is a grey subject with full of mystique and apathy”.

“Fraud can be simply explained—Behavior of one person, to gain by dishonest means an advantage over another person.”

“A Fraud can be a false representation knowing it to be false....”

“A fraud may be a misstatement or omission of material Fact”.

“A Fraud is nothing but love for Money...”

“A Fraud can be manipulation of Books of account” commonly known as Fudging the books by false entries in the books of account.

“Cheating the public with misleading and false promises...”

Thus, it is aptly said that Fraud, is nothing but “people”.

Thus, a Fraudster, is a person who perpetrates a fraudulent act knowing it to be false with the sole intention of cheating another person who is a “Victim”. The development of technology in the detection and prevention of crimes and frauds has simultaneously increased the sophisticated methods used by the criminals and fraudsters to overcome such technological developments, thus making it difficult to prevent frauds before they occur.

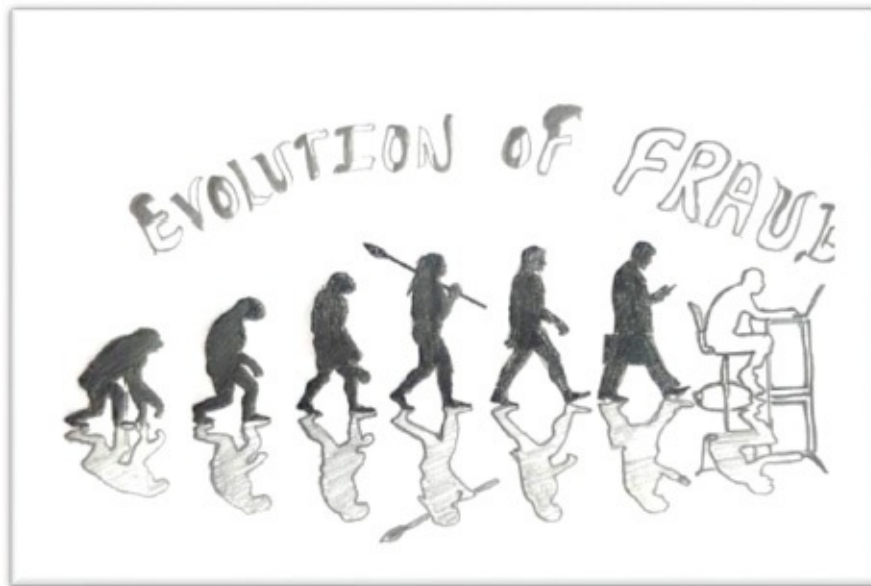
However, it is to be noted that even a fraudster is up to date with the developments and always ahead of a step or two of fraud examiners, statutory authorities and auditors that in most fraud instances fraud is detected but not prevented fully before occurrence.

Frauds have become a global problem with no geographical boundaries. There should be in place an effective fraud prevention programmes, continuous risk assessment, share information on frauds from across the world and join to fight frauds.



## 2. EVOLUTION OF FRAUDS AND CRIMES

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**F**rauds existed since long. The following chronology, reveals, that frauds existed since 17<sup>th</sup> Century on. A few instances are given, briefly here, to understand that frauds and crimes existed since 17<sup>th</sup> Century or before.

### ***1770s-Philip Alston:***

Was a big American counterfeiter of coins. He and his brother John Alston were wanted for counterfeiting activities in North Carolina.

### ***1840s-William Thompson:***

Committed a series of Scams on strangers in the streets of New York City. He

was coined by Newspapers as the “Confidence Man” meaning (“Con Man”)!! He was finally arrested in the year 1849. He used a confidence trick—it is an attempt to gain confidence first and then defraud—a person or a group of persons.

### ***1869s-James Gould & James Fisk-Speculators:***

They plotted but failed to manipulate the US Gold Market. September 24<sup>th</sup> was termed as “Black Friday” as Gold panic was caused, by these two speculators. With insider information, close to the president Ulysses S. Grant, 18<sup>th</sup> President of the United States of America. These two were called “Gold Ring”.

### ***1874-James Reavis:***

He was an American Forger and Fraudster. He was associated with a massive land scam and it amounted to \$5.30 Million in cash and \$160 Million in Promissory notes, (in the present-day terms).

### ***1855 saw the Great South Eastern Bullion Train Robbery (Also known as The Great Gold Robbery of 1855):***

GBP 12,000 (In today’s worth, Pounds 1.10 Million) worth of monthly shipment of Gold was stolen, during shipment, from London to France. It was planned by a band of 15 criminals mostly from South London. It took place on the night of 15<sup>th</sup> May 1855.

### ***1879-Charles De Ville Wells:***

He was arrested in 1892 and was convicted and was guilty on 23 counts of fraud and was sentenced to eight years of imprisonment.

But again in 1910 he started a Private Bank and promised 365% PA and defrauded more than 6,000 investors of 2 Million French Francs and was arrested in Paris in 1912 and was sentenced to five years in prison.

### ***1903–1920 Charles Ponzi:***

Charles Ponzi was the infamous American Italian Swindler and con artist involved in a Ponzi scam. Swindling the greedy investors promising a 10% interest per week, with his Ponzi schemes. He was buying discounted postal coupons in other countries and redeeming in United States and taking monies

with a promise to pay very high rate of interest.

### ***1964–1969-Frank Abangale:***

“Catch Me If You Can” Book & Hollywood Movie. He was one of the biggest con artists and a legendary imposter-expert in cheque manipulation.

In his book “*The Art of the Steal*” he himself rightly described the *con men*...  
“They live a chameleon existence”!!

### ***1992-Michael Sabo-Master Imposter:***

He was notorious in 1970s and 1980s, forging cheques, bonds and securities. In 1992 was charged with Forgery, bank fraud, identity theft. He has served 14 years in federal & State prisons and had plastic surgery, while he was a fugitive.

### ***1991–2009-Allen Stanford:***

He is a financial fraudster and ran a \$7 Billion 20-year scheme through his Antigua based Bank. He then became a Billionaire and subsequently inmate of a prison. He was given a 110-year prison sentence.

### ***1998-John Ruffo:***

Former US Bank Executive swindled up to \$350 Million. He was involved in bank fraud, money laundering. He is still on the run and is not caught.

### ***2001-Enron Scandal:***

The Massive and the Biggest Accounting Fraud. Kenneth L. Lay and Jeffrey Skilling who are the chief executives and responsible for ENRON’s fall were held guilty of the fraud.

### ***2007–2008-Societe General Bank:***

Jerome Kerviel Makes unauthorized Trades and almost brings the Bank down. They lost approximately Euros 4.90 Billion. One of the largest frauds in banks.

### ***2005–2012-Bernie Lawrence Madoff:***

The biggest con artist of Ponzi scheme—has cheated one and all to the tune of US \$70 Billion. He was a market maker and an Investment consultant too, hence



committed the biggest fraud and cheated several persons, institutions, corporate. After the fraud was exposed and tried in courts of law, he was given a 150 years sentence in a federal prison and a \$170 Billion restitution. He was convicted and sent to prison in 2012, after his arrest in 2009.

### ***2009-Satyam Computers Services:***

Biggest accounting Fraud in India like—ENRON in United States. Mr. Ramalinga Raju, Chairman of Satyam Computers Services, Hyderabad, India, admitted to the Rs. 7,000/Crores accounting scam, planned, perpetrated and executed by him with the assistance of his management team. Mr. Ramalinga Raju was sentenced to seven years in prison and was fined Rs. 5.50 Crores in 2015. He is presently on bail.

### ***2013-Aleksander Panni:***

A Russian, was arrested for hacking millions of dollars through Malware on online banking accounts.

### ***2015-Volkswagen Emissions Scandal:***

US Environmental Protection Agency has uncovered the biggest fraud perpetrated by the reputed car manufacturer Volkswagen. The company put in 2015, a financial toll of \$18 Billion. The company recalled 4,15,825 car model years 2010–2014.

### ***2018-Punjab National Bank-Fraud:***

Nirav Modi involved in Criminal conspiracy, money laundering and cheating the banks. Punjab National Bank of India was involved in another biggest Banking related scam of India.

Punjab National Bank detects fraudulent transactions of over \$1.77 Billion. Nirav Modi the main architect who was involved in the scam is a fugitive Indian businessman. He is wanted by the Interpol for Criminal conspiracy breach of trust, money laundering, cheating and embezzlement. He slipped away to UK and presently the Indian Government is making all efforts to extradite him back to India and put him to trial for the frauds he committed along with his uncle Mehul Choksi.

### ***Year 2018: ICICI, CEO***

Chanda Kochar, the former MD and Chief Executive Officer of the ICICI bank, is being investigated for the allegations of corruption and financial frauds in the sanctioning of the advances to her husbands' Group of companies in 2012 misusing her position. A whistle blower accused her of nepotism and favor in the sanctioning of the advances.

### ***2019-PMC Bank Fraud***

Punjab Maharashtra Cooperative Bank Fraud amounting to Rs. 6,500/crores, facilitating money laundering too. There are criminal cases filed against the alleged persons in the multi crore fraud case. Over 21000 dubious accounts were created over a five-year period to hide the loans given to HDIL. Housing Development and Infrastructure Limited to siphon the funds.

Thus, the above few instances of Frauds & Crimes show us, that, their existence, dates to 17<sup>th</sup> century to date and are growing each year despite all efforts by Governments, Regulators and Fraud examiners. The fraudsters are thus always a step ahead of the fraud examiners and keep pace with the changing technology.

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