



## **FORENSIC INVESTIGATION** *SPECIALIST*

A Newsletter – November & December 2013



Presented by

**J.S.CHOPRA & ASSOCIATES**  
**CHARTERED ACCOUNTANTS**

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### I. INTRODUCTION

We have received a good response and appreciation to the first edition of the **FORENSIC INVESTIGATION SPECIALIST** Newsletter. Keeping in view the feedback received, it has been decided to make it a bi monthly newsletter and also enhance the news contents.

Through this Newsletter we would endeavor to describe the nature of various services pertaining to Forensic and Financial Fraud Investigations, Corporate Business Intelligence, Fraud Risk Assessment and Litigation Support & Dispute services and Forensic & Financial Due Diligence.

We would also attempt to keep the readers informed of latest developments and news in these areas. Some articles of general interest would be included in various issues.

### II. FORENSIC INVESTIGATIONS & DISPUTE SERVICES

**INTRODUCTION - Forensic investigations & Dispute services** : In an era of increased exposure to frauds and related activities, there is a rising trend among professional firms, especially in India, to provide an array of expertise under Forensic Investigations and Dispute Resolution services. It is general trend that all of the larger accounting firms, as well as many medium-sized and boutique firms, have specialist forensic accounting departments, and within this there are further specializations, as given below.

**Forensic Investigations and Dispute Resolution services practise normally involves an expertise in the following areas -**

- Fraud and Financial Investigations
- Corporate Business Intelligence
- Dispute and Litigation support services
- Foreign Corrupt Practises Act consulting
- Anti Money Laundering
- Analytic and Forensic Technology
- Anti Counterfeiting Services
- Pre Employment Background verification

In various issues of the Newsletter, we would briefly touch upon each of the practise areas stated above, followed by a case study which involves some aspects of a fraud investigation.



**CA. Jagdeep Singh Chopra**

**The author is member of the Institute of Chartered Accountants of India. He can be reached at jagdeepschopra@yahoo.com**

**III. FRAUD INVESTIGATION – AN OVERVIEW**

**(part 2 of the article – for part 1 refer our September 2013 issue of the Newsletter)**

The current world scenario of economic downturn and corporate fraud scandals of recent years have renewed interest in financial frauds in various organizations. Negative aspects of globalization and growing economy is white collar crimes. However, the threat of financial fraud is always existing and there is a need for the management, regulators and law enforcement agencies to deal with these situations. There is an increasing trend where various businesses are being victimized by serious internal frauds. Fraud by its nature is perpetrated through secrecy and deception.

Financial fraud investigations has a wide connotation. In this article, an attempt has been made to cover most of the aspects pertaining to financial fraud investigation. In this article we provide information and background in relation to fraud investigations.

The article comprises following areas, namely :

**(1) Fraud and Financial Investigations comprising -**

- **Fraud Risk Assessment**
- **Asset Misappropriation Investigations**
- **Financial Fraud Investigations**

**(2) Corporate Business Intelligence**

**1. AUDITS OR INVESTIGATIONS : MISTAKE OR FRAUD**

**(for the complete write up, refer our September 2013 issue of the Newsletter)**

## **2. FORENSIC INVESTIGATIONS AND DISPUTE RESOLUTION SERVICES**

**In this Newsletter we would cover Fraud & Financial Investigations and Corporate Business Intelligence. Other practice areas, as defined above, would be covered in our subsequent issues.**

**(A). Dictionary meaning of Forensic accounting** indicates it to be the specialty practice area of accountancy and refers to assignments that result from actual or anticipated disputes or litigations. "Forensic" means "suitable for use in a court of law", and it is to this result and potential outcome that forensic accountants generally have to work.

**Forensic accountants** are also referred to as forensic auditors or investigative auditors, and are often called to give expert evidence at the eventual trial. Assignments relating to criminal issues arise subsequent to perpetration of fraud and usually involve accounts related issues and assessing the financial statements. By qualification, forensic accountants are Chartered Accountants / Certified Public Accountants or Certified Fraud Examiners.

Thus Forensic Accountants besides having expert knowledge of accounting & auditing standards and procedures, should have an understanding of business and financial reporting process. They should be well versed with the investigation techniques, evidence gathering and the related legal procedures involved during the course of their assignment. There is an increasing trend where the Forensic accountants are giving vital inputs for fraud risk reduction by way of conducting Fraud Risk Assessment assignments at various entities, thereby mitigating the fraud risk for that organisation. They are increasingly being involved to recommend and conduct forensic assistance as part of statutory audit. Their services are also being utilised as advisers to audit committees and fraud deterrence assignments.

**According to a study on financial statement fraud** conducted by the nonprofit Institute for Fraud Prevention (IFP), a consortium of universities for research of the causes of fraud and how to reduce it, it is stated that internal controls were usually circumvented by a fraud network led by the CEO and assisted by outsiders. The CEO normally includes the CFO in the fraud network. It was further reported that these fraud networks cause extremely large losses that are far greater when the outside audit firm is alleged to have aided the fraud. It was additionally stated that in more than half the cases, an entity other than the organization where fraud is perpetrated, usually an investment bank, auditing firm, or colluding business partner were implicated as a party to the crime.

As Fraud investigations are usually initiated as a result of suspicion about certain type of fraud or suspected persons, it is always wise to engage the services of an expert fraud investigation specialist.

### **(B). Fraud and Financial Investigations**

These investigations involve conducting complex assignments including those pertaining to financial statement frauds, misappropriation of assets, corruption and bribery, and fraud risk evaluations. Broadly, services comprising Corporate Business Investigations, Forensic Accounting and Asset Misappropriation Investigations (Asset Tracing) form part of such investigations.

Professional strategies need to be formulated for gathering evidence, without alarming the potential suspects. The investigation should be focused on identifying the perpetrators, gathering evidence for reporting and litigation support and assisting in recovery. Processes need to be devised to prevent any likelihood of similar fraudulent activity being perpetrated in future.

- **Fraud Risk Assessment** : In view of complexity in business transactions, many entities are often at a risk of fraud being perpetrated on them resulting in loss of large sums of money, assets and reputation. It has been seen that corporate failure can happen due to unmitigated fraud risk. It is a well known fact that every organisation is susceptible to fraud risk. In order to mitigate fraud risks and identify fraud schemes, entities require Fraud Risk Assessments (FRA) to be conducted. Such assignments ensure that entities are able to sustain and grow business in an intensely competitive environment by management and mitigation of fraud through risk assessment.

Fraud prevention should be an important thrust area for the Corporates in present circumstances. It makes proper business sense to have systems and procedures in place to prevent fraud than to deal with its repercussions. FRA schemes facilitate the management to identify risk areas vulnerable to fraud. FRA exercise then enables the management to incorporate internal controls systems which can deter fraud or help to detect possible fraudulent activity. Needless to say, each FRA assignment will be specific to a particular entity.

- **Asset Misappropriation Investigations** : Asset tracing assignment would involve locating assets of a company which have been deliberately kept hidden and are not identifiable. It may so happen that a company or individuals deliberately do not reveal their assets – moveable or immovable. This situation often arises during the course of a legal proceeding or other dispute.

Experienced professionals use their investigative skills to unearth these assets which might have been kept hidden in a maze of transactions, or in the name of a relative. Asset tracing and recovery involves timely action. If the process of tracing are not initiated at an early date, then the probability to find and recover the money / asset becomes more uncertain with each passing day.

These assignments often involve field visits, interviews and search / study of various documents, whether or not available in public domain. Besides conducting a review of the company affairs, forensic accounting and computer forensic processes are conducted by deploying expert professionals using sophisticated softwares, tools and resources to analyse the systems and procedures, including financials, in order to effectively arrive at a conclusive finding regarding the ultimate hidden destination of the asset misappropriated.

Corporate fraud and asset tracing may involve a fraud with cross border ramifications from a financial misappropriation conspiracy which may be operating out of several international jurisdictions, implicating some directors, employees or external agencies. The investigation is usually directed to establish the persons who may have been involved in the fraud, uncover information relating to movement of assets and to identify their location offshore and establish control and ownership.

Investigation should be conducted ethically and discreetly. Information should be gathered and presented in the formats required for litigation support.

The end result of a successful investigation is concise reporting, along with requisite evidence, which would stand up in the court of law.

- **Financial Fraud Investigations** : (most of this part has been repeated from previous Newsletter, for the sake of continuity)

**Corporate Fraud Investigations** should be conducted with capability, a shrewd sense of timing and balance to ensure the desired result.

While conducting a financial fraud investigation, it is advisable to involve the management of the client at an initial stage itself. During the initial phase of discussions and interviews with the management, main issues involved in the investigation are identified and discussed. This always facilitates in putting a perspective to the whole investigation. Main ingredients of an investigation is that the findings should be able to stand up in a court of law. It thus has to be supported by properly documented evidence. Evidence in form of documents and discreet interviews of employees, customers, associates, competitors and other related parties form an important part of the investigations.

Successful investigation involves maintaining absolute confidentiality of the assignment, being familiar with court procedures, having requisite investigative experience and techniques. A person conducting the investigation should have adequate financial acumen and the ability to isolate issues. He should also identify and legally secure evidence and thereafter properly interpret the evidence.

While conducting an investigation into a Financial Statement Fraud, it should be considered that the most common way that financial statement fraud is carried out is through revenue overstatement. Further, the most convenient method to undertake this is to depict an apparent improvement in the financial position of the entity by fraudulently inflating revenue. Trends in revenue are compiled and revenue overstatement are thereby detected by analyzing these revenue patterns.

For example : Irregularities or unusual changes in cost of goods sold may indicate that fictitious revenue may have been accounted for without corresponding expenses. It has been noted that Revenue overstatement may also be suspected when an entity regularly has cash flow problems, even though the financials may indicate an apparent increase in sales and profits and a robust bank balance.

Another way to overstate revenue without arousing any suspicion would be a constant increase in sales or profits from period to period. This is more so for public companies where the shareholders have great expectations from the company management for good financial performance year on year. If the management wants to camouflage its intentions of fraudulent increase in revenue, it can do so by reporting increased sales and profits within the acceptable norms for that industry. The catch lies in reading between the lines.

The financial statements may indicate robust growth whereas the Notes to Accounts may indicate a different scenario, like significant increase in material cost which should adversely affect the profits while instead the financial statements may be indicating good profits year on year. In this situation, Profits would increase or remain stable, if there had been a corresponding increase in sale prices, which however was not the case in this company as per independent evidence. This gave rise to doubts on the correctness of the financial statements leading to an in-depth verification process.

Thus on the face of it, the financial statements may appear reasonable, however the fraud is discovered when the facts are cross checked and outside evidence is compared with management's assertions.

A majority of Corporate Fraud cases involve devising accounting schemes with a purpose to deceive stakeholders, auditors and various interested parties with regard to the accurate financial position of the entity. This inaccurate financial data and fictitious performance

indicators result in the company artificially depicting good performance resulting in the rise of share price of the corporate. This translates into significant financial losses to investors which has the potential to shatter investor confidence and cause damage to the economy, once the correct financials of the company are revealed.

Financial frauds and falsification of financial information are usually perpetrated in a combination of following schemes :

- incorrect depiction of financial statements,
- inappropriate revenue recognition including revenue overstatement and fraudulent reporting of fictitious sales,
- incorrect expense recognition,
- overstatement of assets and understatement of liabilities,
- concealment of transactions through off balance sheet items and entities,
- misappropriation of assets,
- fraudulent conduct by senior management and fraud unrelated to financial statements (e.g., corruption),
- improper ratios pertaining to inventory or accounts receivables, recording of large amounts being written off immediately after closure of the accounting period are indicators for fraudulent manipulation of revenue,
- false accounting entries.

Financial investigation involves using accounting expertise, documents and critical transaction analysis combined with witness and third-party evidence. Usually such investigations require conducting a review of various documents and electronic evidence, then collating and managing these documents to aid in further analysis. Interviews with employees and persons with specific knowledge relating to the investigations underway, form a part of the process aimed at exposing such fraud schemes and aiding expeditious recovery of amounts defrauded.

In this age of computerization, experienced professionals in Analytic & Forensic Technology (covered separately in the article) usually form a part of the investigations by collecting, controlling and analyzing huge and often complicated data through their proprietary modern technology tools. The computer forensic analysis so conducted provide vital inputs to the whole investigation process, by indicating the trends and information arising from their analysis.

### **(C). Corporate Business Intelligence**

**There are multiple practice areas in Corporate Business Intelligence, some which are covered below.**

**(i) Corporate business intelligence primarily involves background verification** on potential targets in order to facilitate the client to use the information to make a valued decision for mitigating risks associated with the transaction. The potential target is clearly stated by the client.

In view of domestic and international organizations entering into business partnerships with unknown entities all over the globe, makes them vulnerable to potential legal and commercial risks. It is thus imperative that due diligence and requisite background investigations be conducted on proposed associates in order to avoid serious legal complications. Integrity due diligence are conducted to complement the legal and financial appraisals carried out with regard to mergers, acquisitions and other transactions.

**Background information may be required as a vendor background check, pre investment due diligence, litigation intelligence or support information for fraud investigation.** This information would assist the client in forming a view regarding the reputation and integrity of a company and the track record of their business performance. The investigation may facilitate a timely warning of inappropriate or potentially illegal activities and associations which may enable the client to ascertain the truth of the credentials presented by the target.

The investigators employ different methodology for conducting such assignment. They may obtain information available on the public domain, through regulators and statutory authorities, information / interviews of employees and business associates, media search, other data base and internet search, information from law enforcement agencies and other areas. As required, all or a combination of the sources stated above, are used to conduct such investigations. The process involves comprehensive desktop review and field visits of the investigating team.

Detailed database research and investigative techniques are used to establish factual performance of the organisation, its market standing, the integrity and competence of its promoters, management and executives. Undisclosed, significant information are searched, which could impact a deal or an organization. The information may include events covered in the media, adverse market reputation and litigation, reported conflicts with business partners, major developments in the industry or sector, environmental concerns, and undesirable political affiliations.

Needless to say, evidence in form of documents and discreet interviews of employees, customers, associates, competitors and other related parties form an important part of the investigations.

The process should involve unearthing information which may have been deliberately kept hidden or which is not widely known. Depending on the mandate of the assignment, red flags may be identified which could impact future association and dealings with the party.

**(ii) A Corporate may require an undercover investigation** to be conducted within its own organization.

There may be various reasons for the same, which may include –

- that inspite of elaborate security measures, they may have received widespread allegations of theft among their employees.
- there may be some organizations which may require investigation to be conducted as they suspect some employees of corrupt practices and being hand in glove with external agencies contracted by the Company.

Investigations are conducted to gather evidence of theft which would ultimately support a legal action against the suspected employees. Experienced professionals are deployed undercover to collect evidence from within the suspected group, using both electronic surveillance and informal methods.

In some instances evidence gathering may involve surveillance on the suspects and eliciting information from persons close to the suspects.

Investigation may also involve verification of some company documents under the charge of the suspected employees.

If required, trail of the corrupt transactions are traced to the suspected bank accounts.

All the evidences gathered are documented and reported, which would ultimately support any legal or disciplinary action.

- Some organizations may require an investigation to be conducted on one of its directors, partners or staff. The suspicion being breach of contract by the suspect.

An undercover investigation would be conducted to scrutinize the target's financial dealings, his compliance with his contract with the Company. Further, investigation would be conducted to ascertain the suspect's involvement with the competitors of the organization. The methodology of conducting the investigation would mostly be same as stated above.

(..... TO BE CONTINUED IN SUBSEQUENT BI-MONTHLY ISSUE)

#### IV. NEWS - LATEST IN FRAUD & INVESTIGATION

##### (1) Ikea France executives under investigation amid spying accusations

**Head of Ikea France among those accused of employing private detectives to snoop on employees, particularly union activists, & even unhappy clients** (News Source – The Guardian 20 Nov 2013)

Three senior Ikea executives in France were put under investigation on Wednesday over allegations they spied on disgruntled customers and former staff.

The head of Ikea France is among those accused of employing a firm of private detectives to snoop on individual employees, particularly union activists, job applicants and even unhappy customers, and of fraudulently obtaining personal information from police files.

A judge decided there was enough evidence to formally *mis en examen* (the equivalent of being charged) Stefan Vanoverbeke, the chief executive of Ikea France, his predecessor Jean-Louis Baillo and chief financial officer Dariusz Rychert, who were arrested on Monday and held for questioning.

Under French law, the men had to be formally put under investigation within 24 hours or freed. Since January, a total of 10 people have been arrested and put under investigation for "fraudulent use of personal information", including four police officers and Ikea's former head of security.

The case is hugely damaging to the reputation of the flagship Swedish company famed for its family-friendly but infuriatingly difficult to assemble flat-pack furniture. The accused are said to have requested a range of personal data, including criminal records and confidential details about the targets' dealings with the police or courts, even as witnesses or victims. Scores of people were alleged to have been snooped on, including a union official.

Last year, the satirical magazine Le Canard Enchaîné obtained and published emails allegedly between Ikea's management in France and Sûreté International suggesting the security company was obtaining information from the national police information system on behalf of Ikea. The magazine said Ikea agreed to pay Sûreté International €80 (£66) for each request for information and that up to 200 demands were made at the same time.

Two unions have filed legal complaints against Ikea, accusing it of snooping on hundreds of people over a period of at least five years. Among the claims is that Ikea asked investigators to find out if a customer, who was suing the company for €4,000 (£3,350), owned her own property or was known to the police. Other accusations centre on the tracing of car registration numbers.

Vanoverbek's lawyer, Alexis Gulbin, said his client denied involvement. "It was he who took corrective measures as soon as the problems were detected," Gulbin said. Ikea France suspended and later fired the head of its risk management department last year along with three top-level executives, before publishing a new code of conduct.

In a statement in 2012, Christophe Naudin, head of Sûreté International, told journalists last year it had "consultancy and security contracts" with Ikea, but flatly denied snooping for the firm. If found guilty of fraudulently using personal information, the accused face up to five years in prison and €300,000 in fines.

## **(2) Edward Snowden's Leaks Were Masked By Job Duties** *(News Source – DFI News 19 Sept 2013)*

More than three months after Edward Snowden revealed details of NSA secret surveillance activities, intelligence officials are still assessing the fallout from the former contractor's disclosures. But they already know how the leaks happened.

"We have an extremely good idea of exactly what data he got access to and how exactly he got access to it," says the NSA's chief technology officer, Lonny Anderson.

In interviews with NPR, two government officials shared that part of the Snowden story in one of the most detailed discussions of the episode to date. According to the officials, the documents Snowden leaked — the memoranda, PowerPoint slides, agency reports, court orders and opinions — had all been stored in a file-sharing location on the NSA's intranet site. The documents were put there so NSA analysts and officials could read them online and discuss them.

"Unfortunately for us," one official said, "if you had a top secret SCI [sensitive compartmented information] clearance, you got access to that." The importance of such information-sharing procedures was one of the lessons of the Sept. 11, 2001, attacks. Law enforcement and intelligence agencies were unable to "connect the dots" before the attacks because they were not always aware of what other agencies knew.

As a systems administrator, Snowden actually had the responsibility to go to the NSA intranet site and move especially sensitive documents to a more secure location. The assignment was the perfect cover for someone who wanted to leak documents.

"It's kind of brilliant, if you're him," an official said. "His job was to do what he did. He wasn't a ghost. He wasn't that clever. He did his job. He was observed [moving documents], but it was his job." Snowden's supervisors, however, did not realize that he was making digital copies of the secret documents. The officials interviewed by NPR would not say how Snowden managed to take the files out of his workplace, citing the ongoing investigation.

As of June, when Snowden's disclosures became public, some NSA computers were equipped with USB ports where thumb drives could be used. As the NSA's chief technologist and information officer, Anderson is responsible for implementing security reforms to guard against future data leaks. NSA security officers have now limited the options employees have for storing data on their own, thumb drives included.

"One thing we have done post-media leaks," Anderson says, "is lock those down hard, so those are [now] all in two-person control areas." With new security reforms in place, it should be impossible for people like Snowden to work completely on their own. "We're going to remove anonymity from our network," Anderson says. "If you've got privileged access to our network, like a systems administrator [has], if you're being given a privilege that very few people have, you're not going to do anything alone."

The NSA will now be "tagging" sensitive documents and data with identifiers that will limit access to those individuals who have a need to see the documents and who are authorized by NSA leadership to view them. The tagging will also allow supervisors to see what individuals do with the data they see and handle. "Someone today could [still] get access to that intranet [location]," Anderson says, "because it still exists. Could someone today do what [Snowden] did? No."

Among the questions raised by the NSA's security reforms, however, is whether the changes will inhibit the kind of information-sharing the agency wanted to promote in the first place. "You can't make good policy if you can't keep more than one idea in your head at the same time," warns Joel Brenner, a former NSA inspector general. "One of those important ideas is that we have to do a really good job of sharing information and disseminating it to people who really need to know it and doing it fast. The other really important idea is that a lot of this information, if it gets into the hands of people who ought not have it, hurts us badly. So that information has to be protected. You can't separate those ideas."

### (3) Top 12 Financial Frauds of All Time – Source CBSNews.com



#### **The Sale of the Roman Empire (193 A.D.)**

During unrest in the Roman Empire, the Praetorian Guard (a special army supposedly loyal to the emperor), killed the current emperor and offered the empire to the highest bidder. The "winner" was Julianus, who came up with a truly astronomical price: 250 gold pieces for every member of the army, which comes out to somewhere around \$1 billion in today's money. Unfortunately, the guards had sold something that didn't belong to them, a classic, if simple, financial fraud. The new "emperor" was never recognized as such and was quickly deposed.

**Other fact:** First official act of the real emperor who "deposed" Julianus was executing the guards who ran the scam.



#### **The Mississippi Scheme (1719)**

When Scottish financial genius John Law started a company to develop the then-wilderness Louisiana, he saw nothing wrong with hyping the possibilities rather than the reality. He convinced investors (including the French government) to back his development scheme. Shares in his company skyrocketed and French currency increased in value, since it was widely believed France would gain a mountain of gold and silver from what was then only a swampy backwater. When investors actually received what Louisiana was like, shares plummeted. Law narrowly avoided being lynched, escaping only by disguising himself as a beggar. He died in poverty nine years later.

**Other fact:** With the exception of New Orleans, Louisiana is still a swampy backwater.



#### **The Wright Panic (1900)**

Never underestimate the power of social pressure. Financier Whitaker Wright put prestigious figurehead names -- lords and ladies, mostly -- on the boards of directors of his companies. As a result, investing in his firms became quite the social norm among the well-heeled. Unfortunately, while his companies looked solvent on paper, they were really only lending money to one another in order to balance the books. When the scheme became public, shares collapsed, leaving many of his posh pals penniless.

**Other fact:** When Whitaker heard he'd been convicted of fraud, he took cyanide pills and died within minutes.



### **The Original Ponzi Scheme (1920)**

Charles Ponzi discovered that he could purchase postal coupons at a discount, ship them abroad, and sell them for full price. His only lie was exaggerating the financial benefits. Rather than a modest 5% profit, he claimed the coupons would produce a 50% profit in only 45 days. Thousands of people practically threw their money at him, as he paid early investors from the proceeds of subsequent ones. When the eponymous scheme finally blew up, investors lost nearly \$10 million. Ponzi fled the country and eventually died in abject poverty.

**Other fact:** After fleeing the U.S., Ponzi became financial advisor to Benito Mussolini, where his bungling hastened Il Duce's decline.



### **The Eiffel Tower Sale (1925)**

Why buy the Brooklyn Bridge, when there's something even cooler on the market? When "Count" Victor Lustig discovered that the famous Eiffel Tower was in need of repairs, he faked some government papers showing that he was authorized to sell the tower for scrap metal. He managed to get not one, but two scrap metal dealers to come up with a total of over \$200,000 in bribes to throw the multi-million dollar contract their way. Then, he skipped town and returned to the United States, where he continued a lustrous career as America's most successful swindler.

**Other fact:** Victor Lustig is also the author of "The 10 Commandments of Con Men."



### **The Match King Hoax (1929)**

Few moguls of the roaring twenties roared louder than Ivar Krueger, who owned banks, film companies, newspapers, mines, telephone companies and railways. When he tried to form a monopoly to control manufacturing and distribution of all the world's safety matches, few questioned he'd succeed. International banks begged him to let them invest, not knowing that his many companies existed only on paper, profitable only because they were invested in each other. The scam began to fall apart in the great crash of 1929 when investors wanted to cash out, but he managed to hold on until 1932. At that point, he saw it was pointless to continue and shot himself in the chest. The

financial world mourned, until it became publicly known that Kreuger spent all his investor's money -- half a billion dollars -- on his luxurious lifestyle.

**Other fact:** Krueger was reputed to have faked his death and lived the high life for years in the distant island of Sumatra.



### **The Baker Estate Swindle (1936)**

In 1839, one Colonel Jacob Baker died, leaving an estate that comprised most of the land where the city of Philadelphia is located, a tract worth up to \$3 billion. Under the leadership of William Cameron Morrow Smith (pictured?), Baker's heirs formed a legal association, open for a small fee to anybody with the last name "Baker", to pool their resources for the legal battle to recover their share of their rightful inheritance. There was only one problem; Colonel Baker was a fictional creation and there was no inheritance. Smith and his cronies collected nearly \$25 million before the swindle was shut down in 1936.

**Other fact:** A similar scam is pulled on folk with the last name Drake, inheritors of the Elizabethan explorer who discovered San Francisco bay.



### **ZZZZ Best Cleaners (1986)**

Barry Minkow was the wunderkind of Wall Street when he brought his company public. Shares in ZZZZ Best, an industrial rug cleaning firm, exploded in value, creating a company with a stock valuation of \$200 million. Unfortunately, ZZZZ Best didn't really exist, didn't have any contracts, & had originally been funded through a series of credit-card thefts. Finally exposed in 1987, the stock dropped to zero, and Minkow landed 25 years in prison. The actual assets of the erstwhile \$200 million firm -- a few trucks & some cleaning equipment -- were sold for \$64,000.

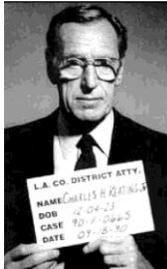
**Other fact:** In his heyday, Barry Minkow was a featured guest on Oprah Winfrey's TV show!



### The Great Insider Trading Scam (1986)

Ivan Boesky amassed a fortune of more than \$200 million by betting on corporate takeovers, many of which occurred only a few days before the announcement of the acquisition. When charged with insider trading, Boesky cooperated with the SEC, and received a negotiated sentence of only 3.5 years (and only 2 of which were served.) He was also fined \$100 million, a fraction of his ill-gotten gains and was permanently barred from working in the securities industry. Ironically, fellow-fraudster Michael Milken, who was also convicted, managed to retrieve his reputation after a sort, and is now a philanthropist, respected by those who have short memories.

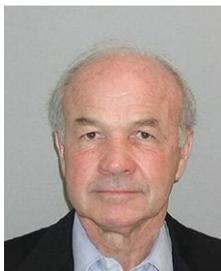
**Other fact:** Boesky is the prototype of Gordon Gecko from the movie Wall Street.



### The Savings & Loan Scandal (1989)

Few fraudsters have been as brazen as Charles Keating, the most visible of a cadre of corporate officers running a number of huge Savings and Loan institutions. These companies operated like banks, but without the regulations, and therefore made a series of bad investments, the main purpose of which was to enrich the corporate officers. Keating and crew never told their investors that they were investing in worthless junk, and Keating was eventually arrested and convicted of securities fraud. As a result, government regulation was promptly tightened, and then promptly loosened, since the financial industry essentially owns the U.S. government.

**Other fact:** Five senators were implicated for providing political cover to Keating and his cronies. One of them was John McCain.

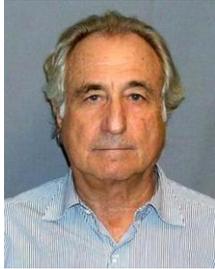


### The Enron Bankruptcy (2001)

Ken Lay was the hapless CEO of Enron, a company that employed approximately 22,000 people and claimed revenues of nearly \$101 billion in the year 2000. In 2001, however, it came out that Enron's finances were a cooked

up fiction, involving all sorts of "creative" accounting. The scandal brought down Enron and it's laughably incompetent "auditors" the Arthur Andersen accounting firm, and resulted in the Sarbanes-Oxley act, whose main purpose is to make it financially difficult for small companies to issue stock.

**Other fact:** Fortune magazine named Enron "America's Most Innovative Company" for six consecutive years.



### **The Madoff Pyramid (2008)**

The only advantage of financial meltdowns is that they smoke out fraud. Compared to the havoc wreaked by Greenspan's course of deregulation, Madoff's ponzi scheme was chickenfeed, involving a measly \$18 billion. However, the fact that Madoff was able to keep the scheme going for so long is ample testament to the fact that the U.S. government -- despite repeated scandals, frauds, ripoffs, hoaxes, and general fancy mischief -- isn't really serious about regulating the financial sector. The SEC even investigated his operations and failed to find anything wrong, even though the impossibility of his business model was staring them in the face.

**Other fact:** Madoff claims that most of the bankers through which he worked knew that he was pulling a scam, but said nothing.

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Contact -

**J.S.CHOPRA & ASSOCIATES**

**CHARTERED ACCOUNTANTS**

**Mobile : + 91 98181 13810**

**+91 97174 21088**

**E-mail:jagdeepschopra@yahoo.com**

**Website : www.jschopraassociates.com**

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