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Abstract

Purpose – The purpose of this paper is to examine the nature and perception of corporate frauds in India and their consequences in the business and economic systems, and it highlights the emerging issues so that existing legal and regulatory obligations can be redefined and structured.

Design/methodology/approach – An exploratory research was conducted through a combined mode of literature review; case studies; structured questionnaires from 346 sample companies; and 43 interviews with the corporate professionals, management, investors, government offices and authorities having wide experience.

Findings – It was found that the regulatory system is weak, and there is dire need to redefine the role of auditors. Coordination among different regulatory authorities is poor, and after every scam, there is a blame game. Reporting of fraud and publication of fraud prevention policy are missing. Banks and financial institutions are ineffective on due diligence, and there is a lack of professionalism on the board and other executive levels in companies.

Research limitations/implications – This study assumes that fraud could be mitigated by proactive and conscious action by auditors, and corporate executives are willing to avoid perpetrating financial fraud despite pressures from investors, government securities regulators and exogenous market fluctuations. The authors relied on the honesty of the respondents during the sample collection and recorded semi-structured interviews. A minimum level of five years' work experience relative to preventing, detecting or investigating fraud has been considered a valid determinant in selecting the purposive sample.

Practical implications – The study suggests mandatory publication of fraud prevention policy; constitution of special purpose corporate offence wing; recognition to companies for improved corporate governance; true adoption of International Financial Reporting Standards; due diligence by banks and financial institutions; compulsory appointment of professionals by shareholders and fixation of responsibility on independent professionals; intellectualisation of audit committee; and more powers to the regulators, especially Securities and Exchange Board of India.

Social implications – Prevention of corporate frauds reduces anxiety, improves corporate image and builds up confidence of the investors, which is essential for resource channelling in financial markets.

Originality/value – The research work is based on a thorough analysis of regulatory framework and fraud case studies and primary data collected from companies, banks and other government and developmental institutions.

Keywords Regulation, Fraud prevention, Corporate fraud, Due diligence, Fraud propensity, Fraud inducements, Scam, Offence

Paper type Research paper

JEL classification – K4, G17, G28, G38, P48

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Introduction

A corporation, being a congregation of various stakeholders at the micro and macro levels, must be fair and transparent to its stakeholders in all its transactions (Ramachandran, 2008). In a globalised scenario, corporations need to access resources and compete in a global marketplace that essentially requires that it must embrace and demonstrate ethical conduct to grow and prosper in the long run. Recent decades have witnessed the sharp increase in the greed of individuals and organisations and have acquired an inevitable presence in our lives and society. Corporate frauds and misconduct remains a constant feature posing a threat both from the macro and micro prospectives of the economy. Liberalisation process in developing economies has typically witnessed a series of scams almost with sickening regularity. Corporate frauds have become a global phenomenon with the advancement of commerce and technology. In recent decades, fast-growing economies observed an enormous increase in corporate frauds, posing serious questions before the academicians, researchers and professionals on the effectiveness of corporate governance mechanisms, government regulation mechanism and the role of corporate and individual ethics. Recently, a number of studies in the finance, economics and law literature have been conducted on the understanding of incentives and monitoring deterrents of corporate frauds and the loopholes in the government control systems.

After every scam, the government and regulatory machinery have been strengthened to reduce the number of frauds that essentially impose a check on the nexus between the company and professionals and between banks and bureaucrats, which may be achieved through more disclosures, by putting and fixing responsibilities on each party involved in the fraud.

Similar to other developing and some developed countries, India is in the grip of fraud, implying the need for a transparent, ethical and responsible corporate governance framework. The global financial crisis during the recent past, along with some of the large corporation failures and frauds, has convincingly revealed that while the corporate governance super structure in India is fairly durable (ICSI, 2007), there are certain weaknesses that may have their roots in the ethos of individual business entities. KPMG Survey of 2006, 2008 and 2010 reveal a continued persistence of corporate frauds and warn the presence of fraud risk in the business structures of large- and medium-sized organisations including banks.

Corporate frauds have increased at a high pace in India (Vivian Bose Commission of Inquiry, 1963; KPMG, 2010). Tables I and II present a summary of the Indian and Global corporate frauds.

The Securities and Exchange Board of India (SEBI) introduced (Prohibition of Insider Trading) Regulations, 1992, which was later amended in 2002 but does not have transnational jurisdiction. SEBI should be given more powers and has to be worked as the Securities Exchange Council. It must acquire the nature of a criminal court to enforce criminal sanction against directors of foreign companies listed in the domestic exchange, who are actively involved in insider trading. Apart from SEBI, we have a multiplicity of regulations dealing with a variety of fraud types and perspectives.

Despite adopting corporate governance and with the existence of numerous legislations and regulatory authorities, corporate frauds have become rampant throughout the country. We attempt to examine the perception of corporate frauds in India and highlight the emerging issues so that existing legal and regulatory obligations

Table I. Summary of Indian and global corporate frauds: Indian frauds

Sl No.	Name of scams	Nature of industry	Year	Fraud perpetrators	How fraud committed?	Fraud quantum (in crores)	Whether SEBI existed
1	Hashad Mehta	Capital Market and Asset Management	1992	Managing Director	Harshad Mehta led to rise in Stock Market by Trading in Shares at Premium.	4000	Yes
2	C.R. Bhansali	Capital Market	1992-1996	Managing Director	Established Finance company and collected money from public and transfer money to Co. that never existed.	1200	Yes
3	Cobbler Scam	Co-operative Society	1995	Promoter	Availed loan of crores of Rupees and created fictitious Co-Operative societies	600	Yes
4	Virendra Rastogi	Trading co.	1995-1996	CEO	Exported the bicycles by heavily invoicing the value of goods	43	Yes
5	Abdul Karim Telgi	Printing	2000	Promoter	Involved in Fake stamps Papers	171.33	NA
6	UTI	Mutual Fund	2000	Chairman, Executive Director, Stockbroker	UTI issued 40000 Shares which were purchased for about Rs. 3.33 crores.	32	Yes
7	Ketan Parekh	Capital Market	2001	Managing Director	Took loan of Rs. 250 crore from the Bank Whereas maximum limit was 1.5 crore.	1500	Yes
8	Dinesh Dalmia	Information Technology	2001	Managing Director	Rs. 1.30 crore shares are unlisted in Stock Exchange. Dalmia resorted ill legal ways to make money through partly paid up shares.	595	Yes
9	Satyam	Information Technology	2009	Auditor, Director, Manager	Accounting Entries has been hugely inflated involving about Rs. 100 crores.	8000	Yes

Table II.
Summary of Indian and global corporate frauds: global frauds

Sl No.	Name of company	Nature of industry	Year	Fraud quantum	Fraud perpetrators	How fraud committed
1	Enron	Natural Gas Co & Non Energy related Activities	1985	$1.5 billion	Founder & CEO	Accounting Frauds
2	Salinas Valley Eng. & Mfg. (SVEM)	Agriculture Business	1999-2002	$3.93 million	President	Diverted Money from SVEM to himself.
3	IRS & SEC	Investment Traded	2000-2005	$12.62 million	Chief executive	False information included in the Quarterly & annual statements and other documents, reports filed with the SEC.
4	Quality Trucking co.	Trucking Co.	2000-2002	$0.50 million	President	Make False Statement on Corporate Tax Returns
5	Corporate Funding Financial of America, Inc (CFFA)	Financial Activity	2001	$ 20 million	President & vice President	Conspiring to commit filing of false Tax Return.
6	San Francisco Investment Fraud	Investment Co.	2001-2006	$4 million	Investment Fund Manager	Commit Wire Fraud, Tax evasion & making and Subscribing a false partnership return
7	Mail & Wire Fraud	Investment Co.	2002-2005	$10 million	Promoters	Convinced people falsely to invest in their Retirement Accounts and give false tax return
8	Tyco	Securities	2005	$ 9 billions	CFO & CEO	CFO & CEO take private loan from Tyco in excess of 170 million dollars
9	Marian Gardens Tea Farms	Farming	2007	$10.5 million	CFO	Four counts of mail frauds and Income Tax Evasion
10	Fisher Sand & Gravel Co. Inc (FSG)	Steel and Supply Co.	2009	$90,000	Executive	Filed false Tax Return and Fisher failed to report all of his income on the individual Tax return.
11	Philadelphia Academy Charter School (PACS)	Education	2009	$1.0 million	CEO	File false Return, Mail Fraud & Theft from a federally funded program
12	Ft. Lauderdale Law Firms	Investment Co.	2009	$1.2 billion	Promoters	Promoter fraudulently induces investors to obtained money through bogus investment and other schemes.
13	World com	Securities	2012	$170 million	CEO & Other Executives	Involved in the Tax Frauds.

to report fraud can be streamlined to ensure compliance, consistency and transparency of corporate operations that can foster the orderly growth of corporate India.

Corporate fraud types and propensities

Fraud is the use of false representations to gain unjust advantage and criminal deception. The Internal Resources Service, Department of the USA of the Treasury, defines a corporate fraud as a violation of the Internal Revenue Code and related statutes committed by large, publicly traded corporations and/or by their senior executives (IRIS, 2010). Corporate frauds, conceptually, is broad and encompasses a variety of criminal and civil violations. In addition, corporate frauds have gradually become very complex in nature (Sutherland, 1949).

A typical fraud triangle quoted in the literature has three major components:

(1) *Opportunity* – Sometimes referred to as perceived opportunity, which defines the method of committing crimes or frauds;

(2) *Motivation* – The pressure or "need" that a person feels which could also be a perceived financial need, whereby a person strongly desires material goods but does not have money or means to acquire them; and

(3) *Rationalisation* – The method and mental process by which an individual can come to an understanding in their mind and to justify any act or acts that they take part in.

Some of the factors and conditions that enable an individual to have the opportunity include – the knowledge of the weaknesses of the company's internal control systems, access to accounting records or assets, lack of supervision, unethical "Tone at the Top" and belief that the person will not get caught (Fraud Risk, 2009). After having opportunity and with the motive elements of the fraud triangle having met, many need to and do rationalise their actions as the last and final step in the fraud triangle. There are those who have no need to rationalise, and they know what they are doing, and whatever the motive, they do not need to attempt to hide their criminal activity from their soul (ACFE, 2007). Rationalisation can ease their guilt and provide the culprits with the final requirement of the fraud triangle. Quoted factors for rationalisation include poor compensation, no or less recognition, need for more money, etc. Duffield and Grabosky (2001) have defined fraud as an act involving deceit (such as intentional distortion of the truth or misrepresentation or concealment of a material fact) to gain an unfair advantage over another to secure something of value or deprive another of a right. It occurs when a perpetrator communicates false statements with the intent of defrauding a victim out of property or something of value (Vasiu and Vasiu, 2004).

Types

Fraud can be classified into:

- financial reporting fraud;
- misappropriation of tangible assets, intangible assets or proprietary business opportunities; and
- corruption, including bribery, gratuities, money laundering and embezzlement.

Asset misappropriation fraud involves taking cash and other assets, and various schemes are used to accomplish this. Assets misappropriation includes cash skimming, cash larceny and theft of inventory or equipment, as well as shell-company scams. *Financial statement fraud* is a serious threat to market participants' confidence in published audited financial statements. Capital market participants expect vigilant and active corporate governance to ensure the integrity, transparency and quality of financial information (Rezaee, 2005). *Corporate espionage* is a threat to any business whose livelihood depends on information. The information sought after could be client list, supplier agreement, personal rewards, research documents or prototype plans for a new product or service. Companies under the law and different legislations make applications to the different authorities to cover up the frauds committed by them. Those who commit *occupational fraud* tend to have many similar characteristics, but they are not all quite as easy to spot or as common as implied above. Understanding what motivates employees to steal from companies is the key to detecting and preventing internal fraud.

Dyck and Zingales (2004), Dyck *et al.* (2007) show that frauds are revealed by several different mechanisms; analysts bring 15 per cent of the frauds to light, and the probability of detecting a fraud increases after a turnover of the external auditors. Johnson *et al.* (2009) examine the effect of executive equity compensation on corporate frauds incentives. Beasley (1996) showed that firms that have outside directors, are lesser likely in the category of fraud firms compared to internally manage ones.

Inducements

Research show that propensity to commit fraud is fuelled by various factors ranging from wealth maximisation to governance frameworks. Numerous studies are conducted to examine the relation between corporate governance mechanisms and earnings management. Dechow *et al.* (1996) suggest that the desire to raise outside financing at low cost can lead firms to manipulate earnings in the first place. Also, easing the debt covenant restrictions (Richardson, Tuna, and Wu, 2002) and meeting the capital market stock price expectations (Statman, 2010) have increased the propensity of committing frauds. Immordino and Pagano (2008) analyse corporate frauds in a model in which managers have superior information but are biased against liquidation because of their private benefits from the empire building. They suggest that in designing managerial pay, equity can improve managerial incentives, while stock options worsen them.

Goldstraw *et al.* (2005) argue that greed; gambling; financial strain, either personal or business; feasibility of business; and influence of others are the major factors stimulating illegal behaviour among employees. In Australia, gambling-related activity is one of the main factors that trigger corporate crime activity (Blaszczynski and McConaghy, 1994; Crofts, 2002). Cohen *et al.* (2010) argue that heterogeneity is present in monitoring even within the set of independent directors, and they support a complementary collaborative board perspective in which directors not only monitor but also provide advice and counsel to chief executive officers (CEOs).

Studies by Agrawal and Chadha (2005), Kedia and Philippone (2009) shows that while distorted incentives encourage managers' fraudulent behaviours, the monitoring system, in the form of corporate governance, serves as a deterrent. Karpoff *et al.* (2008a, 2008b) show that managers caught cooking the books are mostly dismissed from jobs and assume civil penalties and/or are even jailed. Apart from the incentives and monitoring, it is observed that the personal characteristics of corporate managers affect the fraud likelihood. Females are less tolerant to fraud than males in survey studies and insider trading situations (Betz *et al.*, 1989; Torgler and Valev, 2010). It is seen that female executives are more likely to take a stand against corporate misbehaviour.

Overconfident executives are more likely to participate in financial fraud than less overconfident ones. Individuals who engage in unethical acts such as fraud and corruption need a way to rationalise their actions as acceptable (Ramos, 2003). It can be seen that the *ethical norms* of managers play an important role in dealing with ethical dilemmas in corporate settings.

Occurrences of fraud and environmental inducements

Fraud occurrences relate to the environmental conditions – inside the organisation and the outside operating environment, which may be either a micro or a macro one. Fraud is envisioned historically as a violation of trust, and the classic triangle of smuggling, contraband and enforcement sheds light on developments in the financial sphere. Interestingly, yet, little is known about the organisational conditions that can reduce the cost of white-collar crimes (Schnatterly, 2003). Schematically, fraud emerges with economic prosperity, grows in a financial crisis when prices fall and culminates in crash and panic when the scandal is revealed (Blanque, 2003).

Kindleberger (1986) has established that the propensity to defraud increases with the speculation that accompanies a boom. Fraud is recognised as a coincident indicator of prosperity. Van de Bunt (1994) establishes that corporate crimes are crimes committed in the course of otherwise legitimate working procedures in respectable organisations.

Alexander and Cohen (1996) find weaker support for the notion that prior performance affects the occurrence of other types of corporate crime, particularly fraud. Mongie (2009) shows that when tough economic times impact the company financially, it usually increases the opportunity to commit fraud.

Bebchuk (2003) finds that because of the importance of takeovers, researchers have worked to gather substantial evidence about the evidence of anti-takeover charter provisions and their direct effects, and shareholders have sought to express their opposition to some arrangements in corporate votes. Langberg and Kumar (2008) also establish the relation between corporate frauds and investment distortions with efficient capital markets, building on shareholder – manager agency conflicts and investment renegotiation in active takeover markets. Wang *et al.* (2010) find that fraud propensity increases with the level of investors beliefs about industry prospect but decreases in the presence of extremely high beliefs; furthermore, two mechanism are at work, i.e. monitoring by investors and short-term executive compensation, both of which vary with investors beliefs about industry prospects and monitoring of investors; underwriters differ and suggest that regulations and auditors should be especially vigilant for fraud during booms.

Skousen and Twedt (2009) find that propensity of frauds varies from industry to industry, with some countries performing extremely well in one industry, only to prove remarkably risky in the next.

Bratton and Wachter (2011) find a new justification of fraud on the market circulating in the wake of the failure of the original justifications – that fraud on the market litigation enhances the operation of the corporate governance system.

Chen *et al.* (2011) examine whether the monitoring effect of financial analysts mitigates corporate frauds among Chinese listed firms. They test the hypothesis that a negative relationship exists between analyst coverage and corporate frauds among non-state-owned enterprises (NSOE) but not among state-owned enterprises, as NSOEs are more dependent on external capital. Results confirm the predictions that financial analysts contribute to corporate frauds prevention, but this effect is moderated by Chinese state ownership.

Individuals who take part in such criminal activity (fraud) are motivated based on many factors, and they are able to rationalise their actions so that those actions become acceptable to the offender, often to the point in which they feel they are not acting in an immoral manner (Liska and Messner, 1999). Through the use of sociology, one can better understand the workplace environment, as well as the motives and rationalisation, behind crimes such a corporate frauds and the implications of such activities on society (Straus, 2002). ASIS International (2007) examined that because of the losses in the organisation, it can also have an impact on the confidence of the local, state or national economic conditions based on the size of the business affected by corporate frauds.

Fraud detection and control

Researchers have proposed various measures to reduce the intensity of frauds. These are broadly classified into governance structures, modification in the legal and reporting systems and self-correction exercise within the organisation. Corporate frauds are easy to commit, but prevention or detection of corporate crime is not an easy task (Seetharaman *et al.*, 2004).

Reiss and Tonry (1993) suggest that for fraud prevention, one has to rely on governments to make laws and rules governing the behaviour of organisations and to establish techniques for their enforcement or compliance with them. Mesquita *et al.* (2004) show that these governance structures influence corporate performance and compensation packages are used to reward management and stockholders. Some authors like Guttentag *et al.* (2008) show that requiring additional disclosures significantly reduces fraud.

Baer (2008) argues that corporate frauds are often presumed to be the type of crime that can be deterred. From the organisations' perspective, vigilance and innovativeness can prevent frauds (Coburn, 2006). Coburn (2006) also shows how to conduct an effective corporate investigation and the relevant steps that should be considered if an investigation is undertaken. Employees who blow the whistle at work on serious fraud and malpractice out of concern for public interest are to be afforded new protection against reprisals and unfair dismissal (Sarker, 1995).

Li (2010) studies corporate financial fraud and detection using empirical framework that models the strategies' interdependence between fraud and detection and accounts for the possibility that some fraud remains undetected. Erickson's (2011) work reveals that these lawsuits do not target different types of corporate wrongs. Instead these lawsuits too often target the same alleged misconduct, the same defendants and the same corporate wrongs. Moreover, these lawsuits too often target the same alleged misconduct, the same defendants and the same corporate coffers. Voon *et al.* (2008) findings indicate that the corporate crime determinants ranked by most of the respondents and insufficient controls, followed by personal financial pressure and expensive lifestyle. Dyck *et al.*'s (2007) study on the effectiveness of external control mechanisms in detecting corporate frauds indicates that monetary incentives for detectning frauds against the government influence detection without increasing frivolous suits, suggesting gains from extending such incentives to corporate frauds more generally.

Business failures and frauds in the USA, several scandals in Russia and the Asian crisis (1997) have brought corporate governance issues to the forefront in the developing countries and transition economies. Bonner *et al.* (1998) show that certain types of financial reporting fraud result in a higher likelihood of litigation against independent auditors. Khanna (1996) contends that corporate civil liability avoids the undesirable features of corporate criminal liability. Mutyala and Himachalam (2011) find that the recent corporate scams and frauds that came to light in recent times have brought about a change and necessitated substantial external regulations apart from internal controls and regulations. Therefore, corporate governance issues are of paramount importance both for the international business community and international financial institutions. ACFE (2007) states that the social issue of corporate frauds and espionage within the workplace and corporate environment can have a devastating impact on the business entity in which the corporate frauds are occurring.

Alinsky (1984) examined that organisations are very complex and are a system designed by humans to fill a defined purpose. Failure to supervise is one contributing factor to internal fraud and espionage. If an employee is in an environment in which there is little or no supervision then this makes it less of a threat to take part in fraud against the organisation because they feel they will not be detected (Liska and Messner, 1999). Power is a key social concept in organisational situations.

Advances in information technology (IT) have also induced frauds. Vasiu and Vasiu (2004) have proposed taxonomy of IT fraud with respect to the perpetration platform and method. For Internet fraud, Baker (1999, 2002) categorises fraud into fraud in securities sales and trading, fraud in electronic commerce and fraud by Internet companies. MacInnes *et al.* (2005) categorise IT fraud into five major causes:

(1) incentives of criminals;
(2) characteristics of victims;
(3) the role of technology;
(4) the role of enforcement; and
(5) system-related factors.

Corporate fraud occurrences have direct relation to audit quality, standards and practices. Ramos (2003) provides an in-depth, section-by-section explanation, as well as implementation guidance and practice tips for Statement of Auditing Standard Number 99 (Consideration of Fraud in a Financial Statement Audit) fraud standard. Durtschi *et al.* (2004) introduced Benford's Law, a useful digital analytical procedure used by auditors to detect fraud. Non-financial measures were effective in assisting auditors to assess fraud (Brazel *et al.*, 2009). Owusu-Ansah *et al.* (2002) examined the effectiveness of 56 standard audit procedures in detecting fraud. Auditors are also affected by the format of the justification memo (supporting, balanced and component) in assessing fraud (Agoglia *et al.*, 2003).

Brainstorming sessions help auditors to improve fraud assessments (Brazel *et al.*, 2010; Hoffman and Zimbelman, 2009). Hunton and Gold (2010) show that auditors using the most commonly used brainstorming procedure in practice (open discussion) generate lower number of fraud risks identified than auditors using the nominal group and round robin brainstorming procedures. Hammersley *et al.* (2010) show that priming auditors who receive summary documentation increase their fraud risk assessments; however, priming auditors who receive specific documentation reduces their fraud risk assessments.

Wilks and Zimbelman (2004) highlight the importance of audit policy and action plans to improve fraud prevention and detection. Auditors ought to also align their resources with audit fraud risk according to changes in auditing standards (Doogar *et al.*, 2010). Wagner and Dittmar (2006) view the Sarbanes – Oxley Act (SOX) as an asset to strengthen the control environment, to improve documentation and audit committee involvement and to strengthen weak control links, as well as to minimise human error. Payne and Ramsay (2005) concur with Wilks and Zimbelman (2004) and find that the auditors' predisposition to fraud based on fraud risk assessments and audit experience may affect their level of professional scepticism. This is due to the fact that auditors anchor on the results of their fraud risk assessments. Payne and Ramsay (2005) further propose the need for increased focus on professional scepticism through ongoing training for auditors and continuous reminders to auditors. Lange (2008) devised a typology of organisational control on corruption fraud that includes bureaucratic punishment, incentive alignments, legal/regulatory sanctioning, social sanctioning, vigilance, self-controls and concertive controls. Sikka (2004, 2008) discusses the values governing accountancy firms in understanding audit failures and anti-social behaviours.

Literature, therefore, indicates that corporate frauds assume different forms, and the persons viewing frauds carry varying perceptions. Most of the studies contribute to the fact that corporate decision-makers have a strong incentive to commit fraud, knowing that the legal action will not have substance or may not be applicable. In India, we have a variety of legislation dealing with frauds; however, frauds are still on rise in India. Corporate frauds carry a large impact on various stakeholders. Identification and prevention of frauds is a national issue. The prevention of frauds is important for the corporate image of the national economy, and efficient mechanism must exist to identify and stop the continuation of the frauds and strict prosecution should be in place. We therefore examine the nature and types of corporate frauds and their consequences and analyse the perception of companies in relation to factors inducing corporate frauds, views on regulatory framework and fraud prevention mechanisms.

Methodology

We test the following research propositions:

- whether the corporate perception on relative importance of fraud types is same across various company types;
- publication of fraud prevention policy statement is uniform across companies;
- the people responsible for corporate frauds are same as those for post-fraud action; and
- present fraud prevention regulatory and action mechanism is efficient.

For the purpose of this paper, we have conducted a survey of literature on the corporate frauds *inter-alia* covering the nature, fraud types, inducements, motivations, detection and control mechanisms and roles of auditors, boards, etc. In this light, we developed a questionnaire to analysis the perception of corporate world in India and substantiate the results with arguments.

We have conducted a sample survey of the corporate professionals, management, investors, government offices and authorities having wide experience on the issue of corporate frauds through a well-structured questionnaire judgmentally administered to 400 respondents through personal interviews, as well as mailed questionnaire methods and web survey, namely, www.surveymonkey.com, during the period from July 2010 to January 2013. Out of 400 respondents, 346 were selected for the purpose of the study. The survey questionnaire used for the purpose of our examinations enquires about the:

- status of the organisation;
- corporate frauds ranking according to prominence;
- organisations policy and practice for preventing frauds;
- views on factors behind corporate frauds;
- the position of corporate frauds in India, role and performance of Indian companies in prevention of corporate frauds; and
- consequences of corporate frauds.

We also conducted an unstructured interviews (43) at the offices of government agencies like Company Law Board, Serious Fraud Investigation Office (SFIO), Registrar of Companies, Securities and Exchange Board of India, erstwhile Monopolistic Research Trade Practise Commission and respective courts. We use the descriptive statistics and ANOVA on SYSTAT to derive and present the results.

Results

We present the results of corporate perception on types of corporate frauds and organisation policy and prevention mechanism in India.

Corporate frauds types and inducements

Corporate frauds have been classified into four major groups, namely, Bribery, Misappropriation of Assets (MOA), Corporate Espionage, Procedural Frauds and Financial Statement Frauds (FSFs) and are rated by the respondents on a scale of 1-5 in the order of prominence (Table III).

	Ranks				
Fraud type	1	2	3	4	5
Bribery	60	29	44	19	4
MOA	–	74	29	39	14
Corporate espionage	38	18	45	47	8
Procedural frauds	–	24	55	27	50
FSFs	66	–	35	43	12

Notes: 1 – being the highest and 5 – being the lowest

Table III. Ranking of types of corporate frauds

A large number of respondents ranked MOA as the most prominent type of fraud followed by FSF and bribery. The results confirm the fact that MOA and FSF are affecting investors and banks and financial institutions, which manipulate the market valuation of securities for investors and manipulation of stock for banks and financial institutions. MOA *may promote insider trading*, *as well as manipulate stocks for funding*, while FSFs are committed to give rosy pictures to the investors like in the Satyam scam. Bribery *damages the corporate image* in the long run, which affects the business and its stakeholders. The mean ranking scores for procedural fraud was the highest at 3.660.

F-score (at 5 per cent) was obtained with respect to the fraud types vs company's classification in terms of organisation status, size and status of the responding company's executives. The results indicate that there is a large difference in the opinion of respondents on various fraud types (Table IV).

Bribery and procedural fraud yielded high *F*-ratios. Thirty-six out of 64 respondents in the private sector have given highest ranking for prominence of bribery, indicating that *the prevalence of bribery in company operations reflects the need for adequate internal control system and self-regulatory mechanism in the form of corporate governance*. Procedural frauds also indicate significant differences in opinion. A further exploration revealed that the government companies, including the Public Sector Undertakings (PSUs), believe that their procedures are efficient which reduces the chances of fraud. Interestingly, there are no cases of scam or fraud in PSUs or government companies in the past 15 years, while most of the corporate frauds were seen in the private corporate sector. In government or PSU companies, the statutory Auditors in each year are appointed by the Controller and Auditor General, while, in the private sector, the auditor is appointed by the *so-called shareholders* where 90 per cent holdings or real voting powers are held by the management of the company. It is also seen that the auditors offer *Package Services* to the company for which they are the statutory auditors. These services may be of various types of certifications under various statutes. This *indicates the need of rotation of auditors.* It, therefore, follows that to remove the nexus between the management and the auditors, auditors must be appointed on a rotational basis, and their services should be confined to audit only.

Large differences of opinion are obtained for FSF across capital clusters (Table V). Small companies, having capital between INR5-10 crores and relatively large companies above INR25 crores of paid-up capital believe that FSFs are most prominent types of corporate frauds.

An explanation to this result may be that the application of certain provisions of the Companies Act, 1956 are applicable to companies having paid-up capital of Rs. 5 crores or more and also to list the securities at the Bombay Stock Exchange paid-up capital of the company required at present is Rs. 10 crores public sector undertaking, thereby indicating Financial Statement Fraud. For companies having paid-up capital above

Type of fraud	*F*-ratios
Bribery	22.490
MOA	12.216
Corporate espionage	6.739
Procedural frauds	22.052
FSFs	4.293

Table IV.
Company class and types of frauds

INR25 crores, corporate image and brand and also valuation occupy a significant place in the overall business model relating to corporate frauds. For example, Satyam Computer chairman made a nexus with the statutory auditor of the company to audit the untrue financial statements.

In addition, as per the provisions of the Companies Act, 1956, appointment of Company Secretary and Managing Director is mandatory as soon as the paid-up capital of the company rises to INR5 crores. Furthermore, to maximise borrowings from the bank or financial institutions, the company management, with the help of unscrupulous professionals, prepares untrue financial statements, such as manipulation of stocks and false valuation of fixed assets, to reflect a rosy picture of the company and not accounting for provisions and actual liabilities, including statutory dues shown as contingent liabilities or disputed liabilities. This calls for a surveillance mechanism required when any organisation being a company enters into the early stages of their capital cluster.

Table VI shows that *F*-ratios computed for company operations status and types of fraud were the highest for bribery and financial statement frauds followed by corporate espionage. Profit-making companies have given highest ratings to bribery and FSF but a lower rating to corporate espionage. This is probably because profitable companies believe that to maintain and retain the corporate image, valuation and also to enhance their profitability, they are prone to bribery and FSF.

In case of procedural frauds and FSF, it can be derived that increase in turnover and profit of the company to obtain more and more funds from the bank or financial institutions by submitting untrue financial statements prepared with the help of unscrupulous professionals and consultants. This indicates the need for imposing financial or criminal penalties on the independent professionals and consultants and also on advice of whom the management of the company is accustomed to act.

For bribery, *F*-ratio was highly significant across respondents classified on the basis of role. CEOs and MDs have given highest ranking to the prominence of bribery

Type of fraud	*F*-ratios
Bribery	7.818
MOA	*9.105*
Corporate espionage	7.122
Procedural frauds	*14.292*
FSFs	*19.831*

Note: Italic numerals show the significant *F*-value

Table V. Capital clusters and types of frauds

Type of fraud	*F*-ratios
Bribery	*36.018*
MOA	3.299
Corporate espionage	*23.438*
Procedural frauds	7.863
FSFs	*33.130*

Note: Italic numerals show the significant *F*-value

Table VI. Company operations and types of frauds

(Tables VII and VIII). Interestingly, in many cases of corporate frauds scams in India and abroad, CEOs and MDs are the executives found directly involved in cases of bribery. It is seen that independent, as well as government-initiated fraud, enquiries, including cases of bribery, are first initiated or attach to the top executives of whom CEOs, chief financial officers (CFO) and MDs are prime ones. Hence, it can be concluded that *appointment of rotational independent directors on the board with a significant say is a dire necessity in corporate India.*

Opinion on the form of bribery varies across respondents with the highest rating given to cash (33 per cent), and our finding confirms the KPMG surveys of fraud of 2006-2010 reports. Further, the major reason of bribery is to obtain government approvals and orders in the favour of company and to win and retain business (KPMG fraud survey, 2010).

MOA, leading to corporate frauds, is mainly due to CRAR and CPCS, confirming that the major form of bribery is in cash as indicated above[1]. Further, 25.21 per cent of respondents indicated misappropriation of inventory as the reason of corporate frauds, i.e., the established notion that stock is manipulated for banks and financial institutions funding was pointed out.

Siphoning of funds to offshore entities has become a prevalent form of FSF (Figures 1 and 2). This is obvious on account of growing international business and globalisation initiatives and more and more subsidiary companies are opened in India by Indian persons settled abroad and running holding company there. Liberalisation of Indian economy and incentives for foreign earnings and Foreign Direct Investments are being used as tools for committing corporate frauds. The funds received through the Foreign Direct Investment route have to be seen with a critical eye. The origin of funds is important. Are the funds received from well-known parties from abroad, whether the funds are from a person of Indian origin, whether the company is in profit or losses or whether substantial monies have been invested by the Indian partner, will be the

Table VII. Turnover and types of frauds

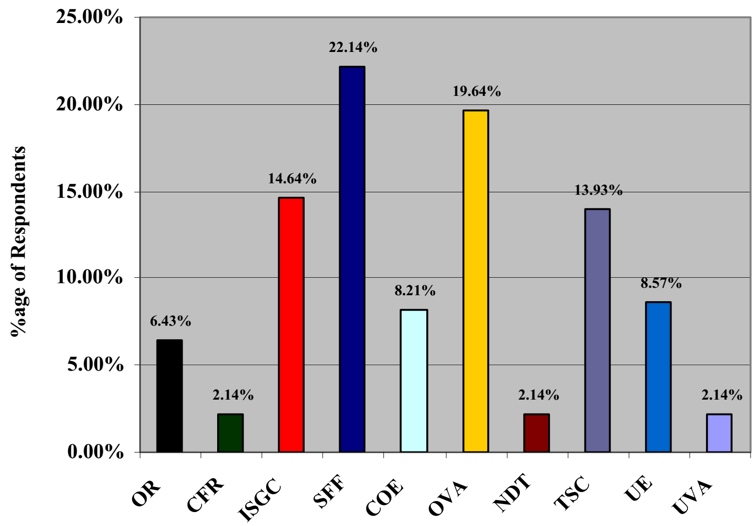
Type of fraud	F-ratios
Bribery	*13.028*
MOA	*11.533*
Corporate espionage	*9.821*
Procedural frauds	*36.601*
FSFs	*38.019*

Note: Italic numerals show the significant F-value

Table VIII. Your role (Status) and types of frauds

Type of fraud	F-ratios
Bribery	*54.109*
MOA	5.228
Corporate espionage	*10.580*
Procedural frauds	*10.067*
FSFs	*17.613*

Note: Italic numerals show the significant F-value



Notes: OR (overstating revenue); CFR (creating fictitious revenue); ISGC (investment in shares of group companies beyond FMV); SFF (siphoning of funds to off-shore entities); COE (capitalisation of operating expenses); OVA (overstating value of assets); NDT (non-disclosure of transactions); TSC (transaction between sister concerns); UE (understating expenses); UVA (understating value of assets)

Figure 1.
Financial statement frauds

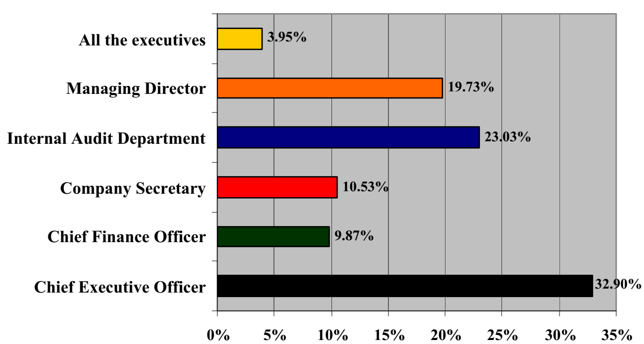


Figure 2.
Fraud reponsibility

important parameters to determine whether such a company is *prima facie* likely to committing frauds. In addition, 19.64 per cent of the respondents indicated overstating value of assets as a form of FSF. The common form of over-valuation assets is cash in hand, stock and debtors and revaluation of fixed assets. This type of practice is adopted by a corporate to mobilise more and more financial resources.

Furthermore, 14.64 and 13.93 per cent of the respondents indicated Investment in Shares of Group Companies and Transaction between sister concerns (TSC) as a form of FSFs. These types of frauds are also common despite clear and strict penalties provided in the Companies Act, 1956 and Income Tax Act, 1961. This indicates the need for putting restrictions on the foreign companies for having subsidiary companies in India. Proper internal control mechanism should be introduced in the companies with independent bodies to check on the financials submitted to the banks or financial institutions at the time of getting funds from them.

The Banks and Financial Institutions should also timely inform the concerned regulatory authorities about the defaults in repayments by companies, even though the banks and financial institutions have agreed to re-schedule the repayment of the loans. This timely disclosure, if reported, can alert the key agencies that include Ministry of Corporate Affairs (MCA), SFIO and Economic Offence Wing (EOW), as well as Income Tax authorities who can scrutinise the books of accounts of the company to detect the fake or false book entries. Concurrent investigations of the affairs of such companies by the regulatory authority will deter unscrupulous professionals, promoters and directors to go ahead with their sinister designs. Where such corporate frauds are detected at initial stage, the regulatory authorities should invoke their powers under the provisions of the Companies Act, 1956 to remove such delinquent managerial personnel from the Board of such companies in larger public interest. More authority is to be given in the acts to the regulatory bodies in case of ISGC and TSC.

A significant number of respondents opined that trade secret lead to corporate espionage, which is a type of corporate fraud, followed by information of Intellectual Property Right (IPR). Higher turnover and hopping culture have resulted in leakage of trade secrets and IPR secrets in corporate India. Many of the international industry association like NASCOM have taken steps to develop a database of professionals to check and regulate the stay of professionals in IT companies, which are more prone to corporate frauds. The *modus operandi* of such companies is to incur large money in software development or technical know-how and to pay very high salaries to their managerial and top personnel, as well as grants of huge loans and advances, particularly to their sister concerns. Such companies either earn negligible profits or incur losses. Such companies also siphon or divert funds to such projects where Foreign Direct Investment is banned. It may be relevant to mention that the export earnings companies who also have Foreign Direct Investments are, in fact, Hawala operators and are not doing any productive work except to create illegal wealth.

Some companies with weak financials, to show a healthy financial position, misclassify or fudge with the heads of accounts leading to not only a rosy picture of the affairs but also to contravention of various provisions of law which go undetected. For example, the figure of Sundry Debtors is inflated by adding to its loans and advances (which should be otherwise shown separately in the Balance Sheet). By clubbing the debtors with the loan and advances, the Auditors take a plea of certain non-disclosures, which would otherwise be mandatory. Further, the company loses by not charging any interest on such loans and advances, which have been netted with the debtors. Similarly, adjusting the loans and advances, taken by such companies, reduces figures of creditors. Certain companies also do not disclose the contingent liabilities arising out of third-party guarantees given by the companies or outstanding capital/contracts. These frauds put the company into direct financial losses. Stricter professional disclosure norms/stiffer penalties can deter companies from such frauds. MCA, SFIO, EOW and Tax Authorities can properly investigate such cases to prevent such frauds and bring the accused persons for prosecution.

An exploration on the form of procedural frauds revealed that companies in India carry on business *ultra vires* the objects and fraudulent transactions between sister concerns are the major form of procedural frauds followed by siphoning of Foreign Direct Investment and reference to Board for Industrial and Financial Reconstruction (BIFR) on false grounds.

Many of the companies formed for the purposes of manufacturing or trading activities are running their businesses as Board of Industrial and Financial Reconstruction (NBFC) or capital market traders defrauding the investors, and these types of companies are taking the benefit of other object clause of the MOA of the company. This requires that other object clause in the MOA of a company under the Companies Act, 1956 has to be removed so that companies confirm their business activities to main objects and cannot take advantage of other object clause. To prevent such frauds, tighter disclosure norms, personal liability of promoters and proper monitoring by the Reserve Bank of India and its reporting to the MCA and SFIO and investigations by the MCA, SFIO, EOW and Income tax authorities and Reserve Bank of India will deter such frauds.

Large-sized public issue companies which misutilise the public money to continue to remain in business usually engage themselves fraudulently in pursuing objects which are not the main objects of the company and are in violation of the provisions of Section 17 of the Companies Act, 1956. Such companies usually have Negative Net Worth but wait for an opportune time on the basis of their large capital to attract gullible investors in to project *ultra vires* the objects. Stricter professional disclosures and stiffer penalties will deter such frauds and a follow-up investigation by the MCA, SFIO and EOW will result in timely action against delinquent promoters/directors of such companies.

Corporate frauds take different shapes, namely, sales tax and excise duties, as well as siphoning of funds between two or more companies offering job-order processing. The material sent by one company to another company for job processing undergoes several processes, and the material comes back, and there is no disclosure of an inherent fraud on the quantities received back which are beyond the "Normal Losses ". There is no accounting for the scrap generated which does not come back to the Company. This system results into the evasion of the excise revenues and, in many cases, sales tax losses. The transaction of sale/purchase with related parties is camouflaged by raising credit/debit notes to give favourable prices to related parties, thereby putting the company to losses. By corporate frauds, the siphoned funds find their way into the hands of the individuals, thereby putting the company into losses. Stricter disclosure norms by the auditors/stiffer penalties will deter/prevent such frauds.

MCA and SFIO should invariably investigate into the affairs of a company, which has made any reference to BIFR. BIFR should take action only in respect of such companies whose investigation has been completed by these agencies as large public money/bank or financial institution money is systematically siphoned off, and such cases are referred to BIFR either for a rehabilitation package or for winding up. Tighter disclosure norms by Chartered Accountants Audit Report/stiffer penalties would reveal timely frauds of this nature.

Organisation policy and practice for preventing frauds

Organisations do not have a policy statement with respect to fraud ($\chi^2_{0.05} = 21.115$, df = 2) which shows that a specific class of companies *must be mandatorily required* to include fraud prevention policy in its board of director's report, and it should be circulated among all employees of the company. Many respondents claimed that their organisation prominently publicises the policy statement through Board of Directors Report, which stems out of a mandatory requirement to report on the governance and internal control system followed by 47 respondents establishing the publication via Corporate Governance Report (Table IX). For 29 sample-listed companies, only 6 use the Board of Directors Report, 8 use rather the corporate governance report and, of the rest, 9 publicise through notes to accounts forming part of annual report (Table IX). *This indicates an urgent need for uniformity of publication standard of fraud prevention policy*.

The internal audit department is responsible for controlling frauds in companies followed by the CEO (Figure 2).

The responses on linkage of fraud prevention policy to Control Assurance Standards are mixed – 36 say a linkage, 64 indicate no linkage and the remaining 56 are undecided. In fact, the standards must *inter alia* include such publications that would ensure better governance systems. Large portions of respondents report the suspected fraud through notes to the accounts forming part of Annual Report (51 per cent) followed by Auditor's Report under CARO, 2003 (22 per cent) and Board of Directors Report (20 per cent).

This implies a dire need for publication and reporting of suspected frauds through a well-structured mechanism.

Organisation's reaction to "reported frauds" generally takes the form of conducting departmental enquiries or references to the internal investigating agency. The action agencies for the event of frauds are varied (Figure 3).

Factors behind corporate frauds

Large numbers of respondents fully or partly agree that corporate frauds are unavoidable in business. This raises doubt on the perception of companies and the corruption index rating of India. Functional heads are mainly responsible for committing frauds followed by the CEO and the CFO of companies. This implies that top management of the organisations next to the Board of Directors is responsible for committing frauds, although, in practice, the compliance certificates for various purposes are signed by the members of the board of directors. There is a need for imbibing good corporate governance culture at the functional head level and also the scaling down of management audit. Greed and weak internal controls are the major reasons for corporate frauds. Respondents also pointed out that the non-independence between the cash department and the approving department is of the prominent cause of

Table IX. Policy documentation vs publication

Opinions	Publicizes policy statement	Does not publicizes policy statement	Not aware of publications
Have a policy statement	32	0	8
Don't have a policy statement	27	52	0
Not aware of policy statement	8	0	29

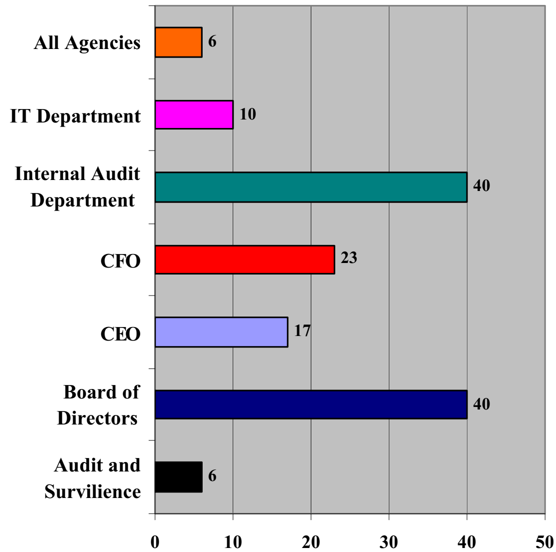


Figure 3.
Fraud action agency

fraud. The finding supports that of earlier research on the psychological motivations for fraud.

Propensity to fraud and consequences

Weak financial control leads to fraud, which lead to poor performance. Instances of recent frauds raise doubt on the robustness of the internal control systems. Seventy per cent of the respondents confirmed, either fully or partially, that poor performance companies do not have qualified Internal Audit Department, internal control and checks due to poor compensation. Eighty-five per cent of the respondents, either fully or partly, agree that that poor performance companies are generally defaulters of banks or financial institutions and thereby the management is not keen on running these companies and instantly siphon off the funds of the company. This indicates that companies defaulting with banks and financial institutions may have a higher *propensity to fraud* and thus can be detected by *exercising due diligence*. More than half of the respondents opined that Mergers and Amalgamations have induced corporate frauds. Yet, 21.80 per cent have indicated no opinion. However, in the past decade, the *zeal to grow inorganically may have induced corporate fraud.*

Half of the respondents somewhat agree that the transferee profit-making company, to achieve tax planning, absorbs and writes-off debts, loans and advances, fixed assets and investments which result in fraud. These results are in line with the recent cases of tax frauds that have been detected by tax authorities in India.

The opinions on whether the additional disclosures in the financial statements reduce or prevent fraud are mixed. SOX and relatively newer compliances have shown both positive and negative results. *On one side, better disclosures help in preventing financial frauds and on the other side induce the reporters to fabricate the statements more artistically*.

Companies partly agree that proper and complete disclosures force the management and the internal auditors to report the complete pictures of any financial irregularity. *This implies that disclosure in itself is a bigger issue than its quality.*

Consequences of frauds on stakeholders have been analysed with respect to creditors, investors, organisations, employees, etc. Considering the multiple responses, it is seen that a significant proportion of respondents believe that loss of corporate credibility is the major consequence of fraud followed by non-payment to creditors, loss of investor confidence and, finally, losses due to switching over of employees. From a broader perspective, the respondents also indicated that corporate frauds create a large negative impact on the investment climate in the country.

Respondents also consent to the view that corporate frauds slowed the growth rate of economy as a whole, and research studies also prove that foreign investments are adversely affected. Thirty-seven respondents indicated slower growth, 31 indicated reduction in employment and 33 opined that increase in government controls happen as a consequence of fraud (Figure 4).

Loss of cash is the major consequence of fraud on organisations with further implications on market valuation and loss of net worth. It is seen that companies that are prone to frauds and are found defrauding investors and society at large generally run short of cash. The market value of shares goes down substantially, e.g. the case of Satyam Computers. In addition, the financing levels of these companies go down, and the investors and analysts *become suspicious about the corporate targets being set.*

Concluding remarks

Corporate frauds are on the rise globally and in India, and therefore detection and prevention is of prime concern of everybody, be it the government or the shareholder. Efforts are being made by all concerned to prevent such corporate frauds and alienate the pain and agony of small investors and shareholders. The analysis shows that bribery, FSFs, MOA and procedural frauds are major categories of frauds prevalent in

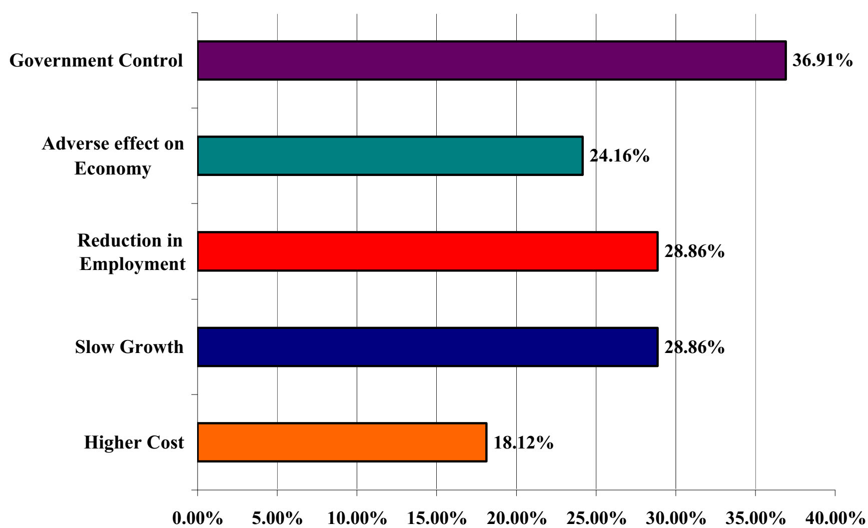


Figure 4. Consequences of frauds on economy

corporate sector, which affects the corporate image, brand and profitability of a company. The inducements for such frauds are mobilisation of more and more resources through banks and financial institutions and also through general public by issuing equity shares and public deposits. Regulatory mechanism is a failure, which is evident from the formulation and publication of fraud reporting and prevention of document formulation and publication.

The complexity of a corporate frauds (which is the handiwork of a select few) comes bare only when the complete edifice of a company has collapsed. Sudden surprises that a company has cheated the gullible investors and that the directors of the company have gone under ground shakes the confidence of all the stakeholders. Shareholders feel helpless before a large corporate fraud. This shakes up the confidence of all the stakeholders, and the shareholders are helpless before a corporate mammoth. Such a corporate fraud strips of the large taxes that the government could have earned, it strips of the valuable savings of the investors and the National Wealth has a negative plunge and everybody seem bewildered. There is an urgent need for uniformity of publication standards of fraud prevention policy. The detection of corporate frauds, many a times, becomes difficult, as the financial statements are fabricated or the balance sheet is camouflaged and also the frauds are never a part of the directors' report. The statutory disclosures also give statements on such camouflaged balance sheet; hence, there appears to be a close and strong nexus between the perpetrators of the fraud and the unscrupulous professionals, making the fraud invisible till the lid blows off. The curse of corporate frauds has a silver lining in the cloud, as there are simple methods, which can be evolved to deter the perpetrators of the white-collar crime, its timely detection and punishment of the accused and the delinquent persons. Results indicate that rotation of statutory auditors and compulsory appointment of qualified internal auditor can help to prevent or minimise fraud.

Note

1. Cash received but not accounted for – CRAR; Cash paid but not correctly shown – CPCS; Misappropriation of inventory – MOI; Misappropriation of other assets – MOA.

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TABLES

Table 1 - Summary of Indian and Global Corporate Frauds

Indian Frauds

Sl no.	Name of Scams	Nature of Industry	Year	Fraud Perpetrators	How fraud committed?	Fraud quantum (in crores)	Whether SEBI Existed
1	Hashad Mehta	Capital Market and Asset Management	1992	Managing Director	Harshad Mehta led to rise in Stock Market by Trading in Shares at Premium.	4000	Yes
2	C.R Bhansali	Capital Market	1992-1996	Managing Director	Established Finance company and collected money from public and transfer money to Co. that never existed.	1200	Yes
3	Cobbler Scam	Co-operative Society	1995	Promoter	Availed loan of Crores of Rupees and created fictitious Co-Operative societies	600	Yes
4	Virendra Rastogi	Trading co.	1995-1996	CEO	Exported the bicycles by heavily invoicing the value of goods	43	Yes
5	Abdul Karim Telgi	Printing	2000	Promoter	Involved in Fake stamps Papers	171.33	N.A
6	UTI	Mutual Fund	2000	Chairman, Executive Director, Stockbroker	UTI issued 40000 Shares which were purchased for about Rs.3.33 Crores.	32	Yes
7	Ketan Parekh	Capital Market	2001	Managing Director	Took loan of Rs. 250Crore from the Bank Whereas maximum limit was 1.5 crore .	1500	Yes
8	Dinesh Dalmia	Information Technology	2001	Managing Director	Rs.1.30 crore shares are unlisted in Stock Exchange. Dalmia resorted ill legal ways to make money through partly paid up shares.	595	Yes
9	Satyam	Information Technology	2009	Auditor, Director, Manager	Accounting Entries has been hugely inflated involving about Rs.100 Crores.	8000	Yes

Global Frauds

Sl No.	Name of Company	Nature of Industry	Year	Fraud Quantum	Fraud Perpetrators	How fraud committed
1	Enron	Natural Gas Co & Non Energy relate d Activities	1985	$1.5 Billion	Founder & CEO	Accounting Frauds
2	Salinas Valley Eng. & Mfg. (SVEM)	Agriculture Business	1999-2002	#######	President	Diverted Money from SVEM to himself.
3	IRS & SEC	Investment Traded	2000-2005	#######	Chief executive	False information included in the Quarterly & annual statements and other documents, reports filed with the SEC.
4	Quality Trucking co.	Trucking Co.	2000-2002	#######	President	Make False Statement on Corporate Tax Returns
5	Corporate Funding Financial of America, Inc (CFFA)	Financial Activity	2001	$ 20 million	President & vice President	Conspiring to commit filing of false Tax Return.
6	San Francisco Investment Fraud	Investment Co.	2001-2006	$4 million	Investment Fund Manager	Commit Wire Fraud, Tax evasion & making and Subscribing a false partnership return
7	Mail & Wire Fraud	Investment Co.	2002-2005	$10 million	Promoters	Convinced people falsely to invest in their Retirement Accounts and give false tax return
8	Tyco	Securities	2005	$ 9 billions	CFO & CEO	CFO & CEO take private loan from Tyco in excess of 170 million dollars
9	Marian Gardens Tea Farms	Farming	2007	$10.5 Million	CFO	Four counts of mail frauds and Income Tax Evasion
10	Fisher Sand & Gravel Co. Inc (FSG)	Steel and Supply Co.	2009	$90,000	Executive	Filed false Tax Return and Fisher failed to report all of his income on the individual Tax return.
11	Philadelphia Academy Charter School (PACS)	Education	2009	#######	CEO	File false Return, Mail Fraud & Theft from a federally funded program
12	Ft. Lauderdale Law Firms	Investment Co.	2009	$1.2 billion	Promoters	Promoter fraudulently induces investors to obtained money through bogus investment and other schemes.
13	World com	Securities	2012	$170 million	CEO & Other Executives	Involved in the Tax Frauds.

Table 2 - Ranking of Types of Corporate Frauds

1-being the highest and 5-being the lowest

Fraud Type	*Ranks*				
	1	2	3	4	5
Bribery	60	29	44	19	4
Misappropriation of Assets	-	74	29	39	14
Corporate Espionage	38	18	45	47	8
Procedural Frauds	-	24	55	27	50
Financial Statement Frauds	66	-	35	43	12

Table 3 - Company Class and Types of Frauds

Type of Fraud	**F-Ratios**
Bribery	22.490
Misappropriation of Assets	12.216
Corporate Espionage	6.739
Procedural Frauds	22.052
Financial Statement Frauds	4.293

Table 4-Capital Clusters and Types of Frauds

Type of Fraud	**F-Ratios**
Bribery	7.818
Misappropriation of Assets	*9.105*
Corporate Espionage	7.122
Procedural Frauds	*14.292*
Financial Statement Frauds	*19.831*

Table 5 - Company Operations and Types of Frauds

Type of Fraud	**F-Ratios**
Bribery	*36.018*
Misappropriation of Assets	3.299
Corporate Espionage	*23.438*
Procedural Frauds	7.863
Financial Statement Frauds	*33.130*

Table 6 - Turnover and Types of Frauds

Type of Fraud	F-Ratios
Bribery	*13.028*
Misappropriation of Assets	*11.533*
Corporate Espionage	*9.821*
Procedural Frauds	*36.601*
Financial Statement Frauds	*38.019*

Table 7 - Your Role (Status) and Types of Frauds

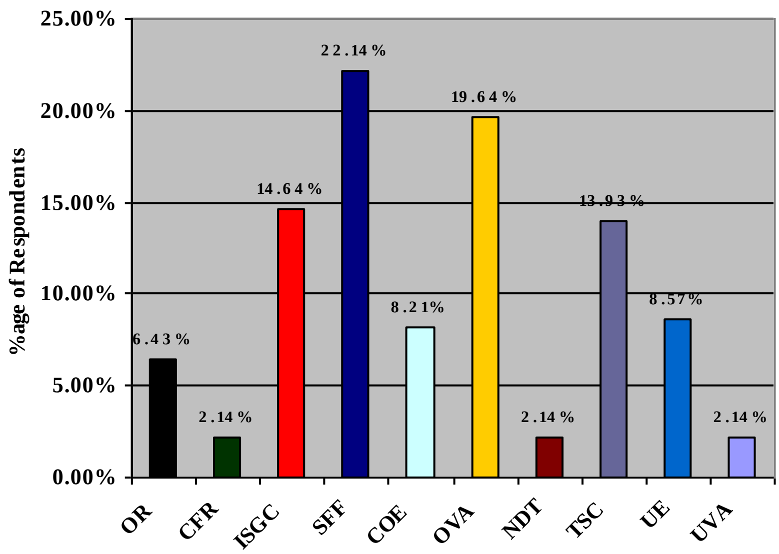
Type of Fraud	F-Ratios
Bribery	*54.109*
Misappropriation of Assets	5.228
Corporate Espionage	*10.580*
Procedural Frauds	*10.067*
Financial Statement Frauds	*17.613*

Table 8 - Policy Documentation vs. Publication

Opinions	*Publicizes Policy Statement*	*Does not Publicizes Policy Statement*	*Not aware of publications*
Have a policy statement	32	0	8
Don't have a policy statement	27	52	0
Not ware of policy statement	8	0	29

Figures

Figure 1 - Financial Statement Frauds



OR(Overstating Revenue)
CFR(Creating Fictitious Revenue)
ISGC(Investment in Shares of Group Companies beyond FMV)
SFF(Siphoning of Funds to off-shore entities)
COE(Capitalisation of Operating Expenses)
OVA(Overstating Value of Assets)
NDT(Non-disclosure of transactions)
TSC(Transaction between sister concerns)
UE(Understating Expenses)
UVA(Understating Value of Assets)

Figure 2- Fraud Reponsibility

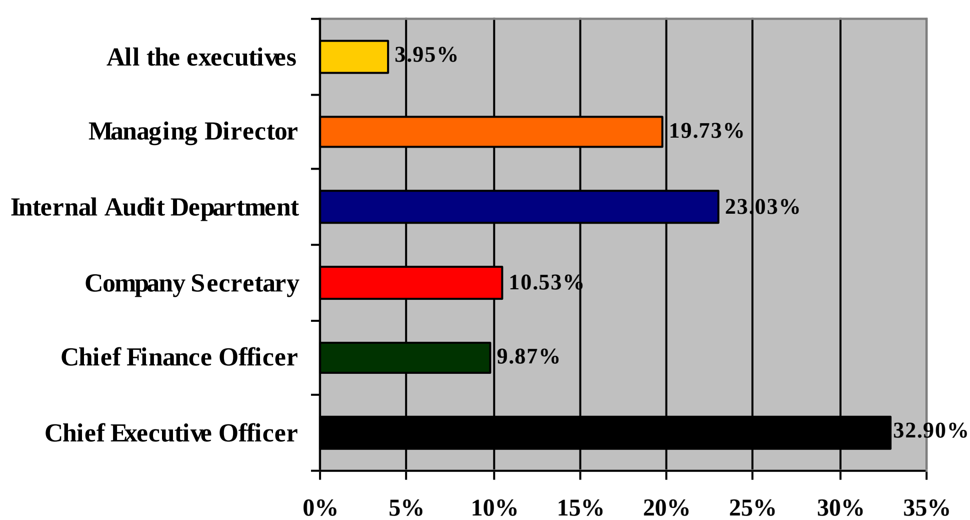


Figure 3 -Fraud Action Agency

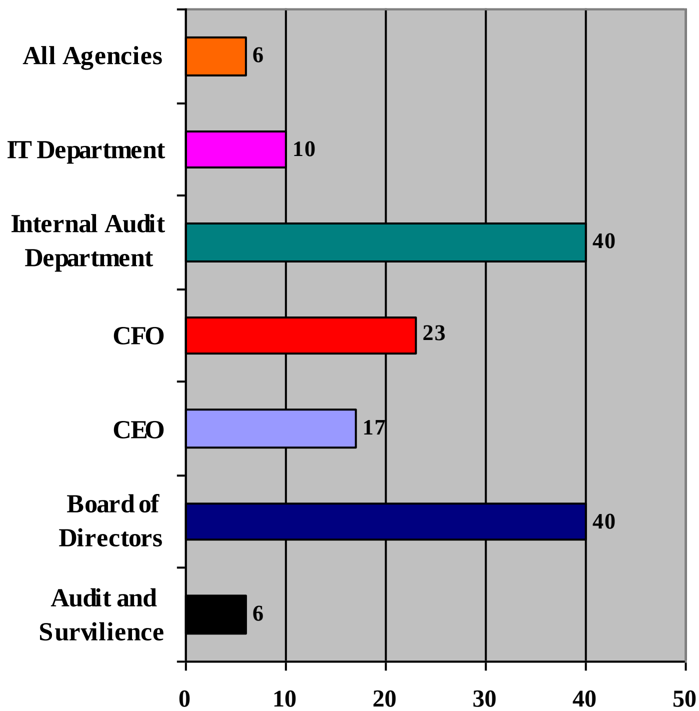


Figure 4 Consequences of Frauds on Economy