

Corporate India unprepared to handle fraud: KPMG Report

Over 70 percent corporates believe fraud in India will increase over next two years Supplier kickback most prevalent form of fraud to hit an organization Theft of Intellectual Property and IT related fraud will increase in coming years Organizations lack effective internal control mechanisms to manage risks

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India is perceived as a fraud haven with over 75 % of the respondents to the KPMG survey considering fraud remaining undetected as their highest concern followed by inadequacy of anti-fraud measures and unethical behaviour of employees. The dual impact of two concerns rated high by respondents i.e., unethical behaviour of employees and inadequacy of anti-fraud measures, leads to an environment where both inclination and opportunity co-exist. This could mean that organizations in India that remain passive in their approach to deal with fraud may be a perfect breeding ground for fraud, suggests the findings of the latest KPMG report on fraud.

Re-enforcing the point, over 80 percent of the respondents accept that fraud is a problem in the corporate environment in India and another 70 percent believe that fraud in India will increase over the next two years. From KPMG's previous survey in 2006 there has been a rise of approximately 54 percent in the number of fraud victims.

Speaking on the report release, **Deepankar Sanwalka, Head Forensic Services, KPMG India** said 'With the increase in the number of business transactions combined with the lack of effective monitoring, frauds are a real time threat for most corporates in India. It comes as a surprise that even the larger companies operating in India do not have adequate risk management strategies'. He added 'soon companies operating in the Indian marketplace shall be under greater pressure to implement better practices in corporate governance, corporate disclosure and risk management'.

The findings of the KPMG report suggest that the threat of fraud comes mostly from within the organization. Majority of the respondents believe that the employees pose the maximum threat to an organization and the senior management as compared to other employees is more likely to commit fraud. The inherent responsibilities and trust associated with senior positions, ability to over-ride internal controls, internal knowledge and access to confidential company information that come with the managerial position create the risk that fraudulent acts may occur. Next to employees the maximum threat is perceived from suppliers and service providers. Hence it is not surprising to know that the collusion between the two would be a major area of concern.

According to respondents, supplier kickbacks is the most prevalent type of fraud being faced by the organizations today. However, going forward; the maximum risk faced by respondents would be in the form of theft of Intellectual Property or by frauds related to e-commerce and IT. Their fears are representative of our shift towards becoming a knowledge economy and our growing dependence on IT and e-commerce. Most of the organizations use IT to conduct business but surprisingly only 27 percent of the respondents is using technology to proactively identify the red flags. This shows that their fraud controls have not kept pace with the technology and can be improved considerable if organizations would use data driven technology in their fraud control frameworks.

The KPMG report highlights that typically, companies refrain from taking legal action against fraud

perpetrators and prefer separating the perpetrator of fraud from the company (employees) or stop dealing with them (external parties). Action taken by organizations greatly depends upon their outlook and tolerance towards fraud as well as their appetite to deal with law enforcement and legal channels, should they choose to prosecute perpetrators.

The survey comprises of respondents from across the industry and at different levels in the organizations. Close to 25% of the respondents were at the level of an Executive Director, MD or CEO. Approximately 30% of the respondents were CFOs of firms.

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