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KPMG: Fraud surveillance by Indian firms on the rise

Vandana Gombar / New Delhi March 28, 2006

CORPORATE GOVERNANCE: New standards force companies in India to set up new systems for fraud detection and prevention.

What SOX (pronounced socks) or the Sarbanes Oxley Act did for corporate governance standards in the United States, Clause 49 of the companies Act is doing for India.

From putting procurement procedures under the magnifying glass to setting up systems to help and protect whistles blowers to pre-employment screening of prospective employees, Indian companies are doing it all.

Typically, 3-5 per cent of a company's turnover could be siphoned off by fraudulent practices perpetrated by employees or those contracting with the company.

With the change in the global moral climate post-Enron, there is no shrugging-off of corporate misbehaviour. Rather, there are attempts to move towards zero-tolerance zones as far as fraud is concerned.

"There is less acceptance of fraud globally, and in India," says the country managing director of KPMG India, Ian Gomes, adding: "It has now moved to the agenda of corporate boards."

The interesting thing is that with the most networks (offices and banks) online, 90 per cent of frauds will have some element of IT. Indian infotech companies, especially those in the outsourcing business, risk annihilation if stringent fraud prevention practices are not put in place.

It is therefore not surprising that KPMG's forensic practice — which investigates, detects and prevents frauds — has seen a huge growth in the country over the last few years.

"India is the fastest growing market for our Forensic practice," says KPMG's global forensic chairman, Adam Bates. In fact, the annual jamboree of KPMG's global forensic team is being held in India for the first time, bringing together fraud experts from 30 countries.

KPMGs Forensic team in India has about 40 people from diverse backgrounds such as police officers, chartered accountants, social workers, technology professionals and lawyers.

Except for China, the firm has seen significant growth in its forensic practice in all the fast-growing BRICS economies as also countries like Korea, Japan and Spain.

MARKET INDICES

Sensex	11079 (129)
Nifty	3322 (42)
Rs-$	44.67
Nikkei	16650 (90)
Nasdaq	2313 (13)

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As far as risk sensitivities go, India's financial sector faces the highest risk of fraud, as per the "perception" of 200 companies surveyed by KPMG spread across the industry including construction, retail, entertainment, consumer products, energy, manufacturing, information technology and financial services.

The specific sectors most susceptible to fraud were banking, insurance, mutual funds, asset management, investment banks and non-banking financial companies.

The respondents, representing senior management, also felt that the preparedness of Indian companies to address fraud is very low. With reality changing, these perceptions could change too.

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