KPMG

FORENSIC

2008 GCC Fraud Survey

For Gulf Cooperation Council (GCC) Countries

ADVISORY

AUDIT ▪ TAX ▪ ADVISORY

Introduction

Welcome to the second Fraud Survey conducted by KPMG in the Middle East and South Asia region.

KPMG's Forensic practices across the globe have been undertaking region focused surveys for over a decade to assess the overall level of awareness of fraud and the measures taken by businesses to mitigate fraud risk. We surveyed the incidence of fraud in the Arabian Gulf Cooperation Council ("GCC") countries covering the Kingdom of Bahrain, the State of Kuwait, the Sultanate of Oman, the State of Qatar, the Kingdom of Saudi Arabia and the United Arab Emirates ("in the region").

As one of the leading providers of forensic services in the region, KPMG believes that it is important to assess the trend, nature and extent of fraud in today's business environment. Organizations in the region are facing major challenges brought about by rapid economic growth, increasingly sophisticated businesses and technological advances. With this backdrop, the risks of undertaking business have increased significantly and there is a need to manage and mitigate these risks more effectively. Our experience in the recent past indicates that there is a reduced tolerance of fraud and unethical behaviour as well as a shift from reactive measures in combating fraud to proactive measures such as the introduction of whistle-blowing mechanisms.
The 2008 survey provides an insight into current fraud issues being faced by organizations generally in the GCC countries including:

- how businesses have been affected by fraud and misconduct;
- whether fraudulent activities are increasing or decreasing;
- the extent and financial impact of fraud;
- who is most likely to commit fraud;
- the impact of e-commerce enablers on fraud; and
- what (if any) measures businesses are taking as regards prevention and detection of fraud.

Please contact one of the KPMG Forensic professionals whose details appear on the inside cover of this publication for further information about your specific industry.

We take this opportunity to thank all those who have participated in this survey and look forward to your continued support.

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Partner
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Executive summary

The findings set out in this report are based on the responses that we received to a survey questionnaire that was distributed in 2007 to over 1000 organizations in the GCC. The questionnaire contained 44 questions seeking information about incidents of fraud within the respondent's organization. We have attempted to provide an insight on the warning signs of potential fraud, its aftermath and most importantly the measures to safeguard an organizations assets against fraud. Most of the respondents to the survey belonged to the top management category in their respective organizations.

The problem of fraud and its extent

More than 40% of the respondents believe that fraud and misconduct is a major problem when undertaking business in the region while more than half expect the level of fraud to increase in the next two years. The cost of fraud reported (not all respondents disclosed information on the value of fraud – some respondents disclosed that they had a been a victim of fraud but chose not to disclose the value) was in excess of US$ 100 million which suggest that the losses resulting from fraud in the region are likely to run into billions of US$ per annum.

Perpetrators of fraud and popular frauds

The survey shows that, compared to KPMG 2004 GCC Fraud Survey, there has been a significant increase in the percentage of internal (management / employee) fraud as a percentage of total fraud – from 48% in 2004 to 65% in 2007. This arose mainly through fraudulent manipulation of financial statements to obtain excessive bonuses or bank funding. Cheque forgery, kickbacks, bribery and procurement fraud also remained popular whilst e-Commerce fraud has emerged as a major type of fraud in terms of value.

Fraud detection and causes

Internal controls continue to be relied upon to detect fraud but almost 40% of fraud was detected by way of notification by stakeholders, anonymous letters or calls. This emphasizes the need for encouraging such mechanisms by establishing secure and trusted channels of communication.

However, almost half of the respondents suggested that early warning signals or 'red flags' (e.g.: non compliance with contract specifications, process breakdowns, non-submission or delayed submission of reports and lavish lifestyle) were ignored.

Greed and the desire for a lavish lifestyle were reported as the key motives for committing fraud. That said, a number of fraudsters were opportunists. They may not have originally intended to commit fraud but, on becoming more aware of the ethical climate and poor or non- existent corporate ethics, they "took advantage" of the situation.

New challenges

Economic growth in the region is currently high and this brings new challenges from a fraud risk perspective. This has created more sophisticated businesses but also led to growth of fraud in some new areas – for example, Intellectual property/contract compliance in self-reporting relationships and identity fraud / theft.

Conclusion

Business is booming and fraud is on the increase. Committed efforts to promote a culture of compliance, actively appreciating core values of integrity and honesty and setting the right example at senior levels are a few of the actions that should be implemented by top management to establish the right climate to reduce the risk of fraud. Respondents to the survey regard it as the duty of top management to set an example to the entire organization and to take the lead in fighting fraud.

Organizations in the region appear to have varying levels of understanding as regards the optimal framework for fraud management strategies. A sustained management focus is needed to understand current characteristics related to fraud and misconduct in their organization in order to design a strong, organization-specific fraud risk management strategy.

Perhaps because of the buoyant regional economies, management of fraud risk is not currently top of the agenda. It should be. In other markets, relative measures have been taken as a result of massive individual frauds or because frauds have been identified when there is a downturn in the economy. For some organizations in this region, it will be too late.

About the survey

During 2007 KPMG Forensic sent a fraud survey ("the survey") questionnaire to a number of organizations in the GCC countries, including some of the largest companies, Government agencies and other entities.

The survey was conducted on a confidential basis on the undertaking that no information would be released on individual survey responses.

Those surveyed were asked questions relating to the following:
- Their opinion on the extent of fraud in business generally;
- Fraud experienced in their organization during the survey period;
- Steps taken to prevent fraud: and
- Business ethics.

The definition of fraud for the purpose of this survey was considered to be any dishonest activity occasioning actual or potential financial loss to any person or entity by employees or persons external to the entity through the use of deception.

The table below summarizes the percentage of respondents classified by industry sector.

Primary Industry sector classification*

Financial Services	36.4%
Consumer and industrial markets	26.6%
Infrastructure and Government	24.5%
Oil and Gas	23.8%
Information, Communication and Entertainment	16.0%

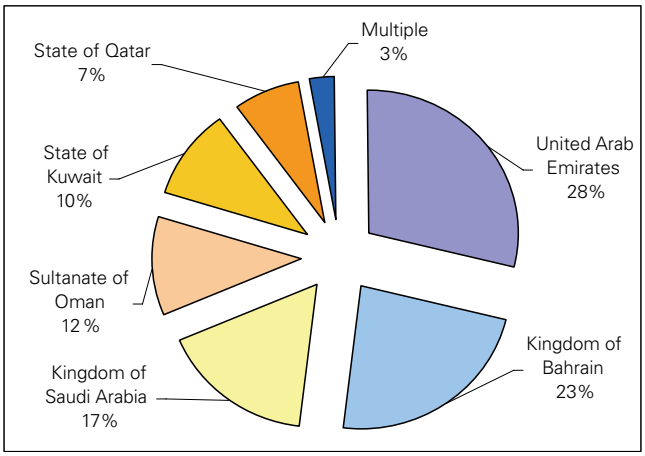
* The total does not add up to 100% due to certain organisations operating in multiple industry segments.

Respondent's profile

The United Arab Emirates led the survey in terms of overall response rate but other GCC countries were uniformly represented

Organization profile

The greatest number of responses was from organizations based in the United Arab Emirates. A breakdown of responses is shown below.

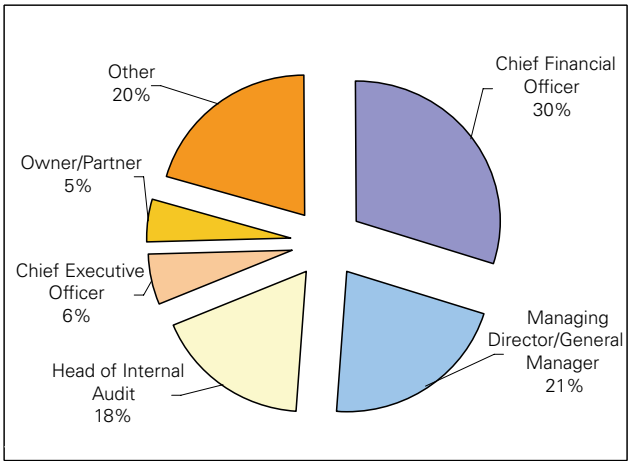


49% of the respondents employed more than 500 full-time employees.

Fraud is not just the concern of the Finance department. CEOs, MDs and owners formed 32% of the respondents

Role profile

Majority of the respondents to the survey belonged to the top management category of their respective organizations. Respondents such as the CFO and the Head of Internal Audit represented 48%, while roles such as the CEO, General Manager / Managing Director and Owner / Partner represented 32%.



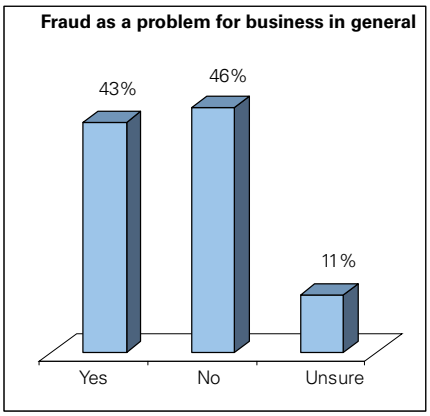
Opinion on Fraud

43% of respondents believe that fraud is a major problem in general when doing business in the region

Is fraud a major problem?

This is probably the most important question that this survey sought to answer. We asked the respondents two questions - whether fraud and misconduct is a major problem generally (overall perception about their industry) and whether fraud is a major problem specifically for their own respective organizations (specific to their organization).

Overall, 43% of the respondents believe that fraud and misconduct is a major problem while doing business in the region reflecting an increase from 37% of respondents in 2004 (Source: KPMG 2004 GCC Fraud Survey). A notable feature is the sharp increase in the number of respondents (11% up from 1% in 2004) who were not distinctly sure whether fraud was not a problem generally in business.

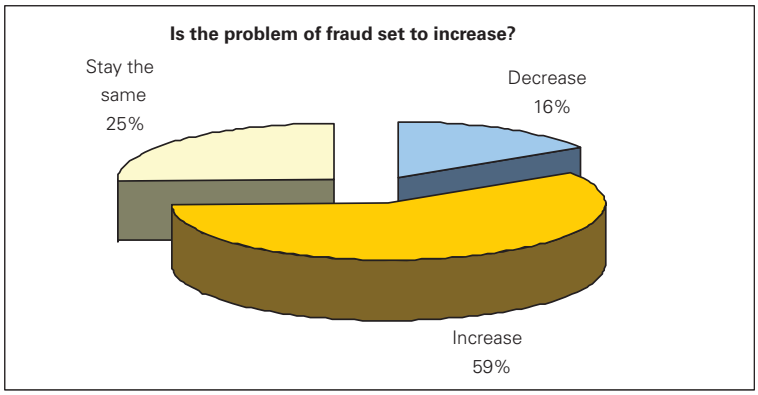


While the reported perception was that fraud and misconduct for business in general is increasingly a problem, only 29% of the respondents believed that fraud was a major problem specifically for their own business. This statistic remains unchanged from the KPMG 2004 GCC Fraud Survey perhaps suggesting reluctance by some to recognize concern regarding fraud and misconduct in their own organization. This reaction might stem from the underlying nature of fraud in that the effect is fully realised only upon discovery of the event (and it requires an acknowledgement of potential problems in one's own organization).

More than half of the respondents believe that the incidence of fraud and misconduct is set to increase in the next two years

Is the problem of fraud set to increase?

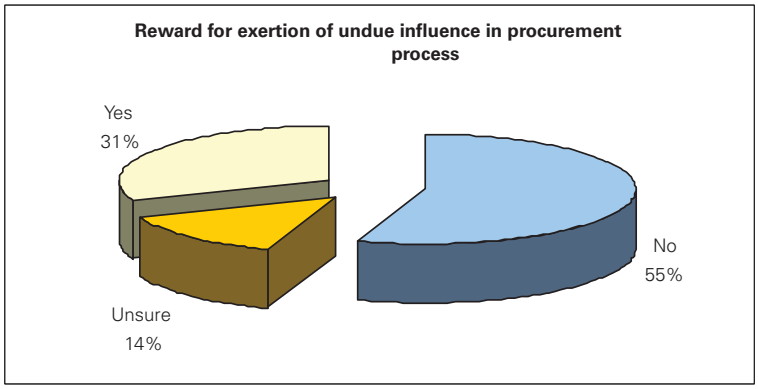
59% of respondents believed that the level of fraud within businesses in the region will increase over the next two years as compared to 37% in the KPMG 2004 GCC Fraud Survey.



In addition, 67% of respondents believe that fraud is equally prevalent in the private and public sectors.

Influencing the procurement process

Exertion of undue influence by employees with authority over (a part of) the procurement process has always been an area of interest in relation to fraud and misconduct.



31% of respondents believe that it is a practice within their industry for employees to be offered or given something of value to exercise their influence in the procurement process. 55% of respondents believe that the procurement process in their organization is 'above board' albeit that the response obviously covers all industries. That said, in our experience the practice is more common in certain industries such as construction.

Regulators and Government may take proactive steps to improve business conditions related to fraud and misconduct

KPMG comment

The increasing recognition that fraud and misconduct is a major problem in conducting business in the region may indicate the need for additional anti-fraud measures by organizations and Government in order to maintain investor and consumer confidence in business practices. Indeed, most countries in the region ranked lower than the previous year in the 2007 Corruption Perception Index released by Transparency International (www.transparency.org).

Experiences on Fraud

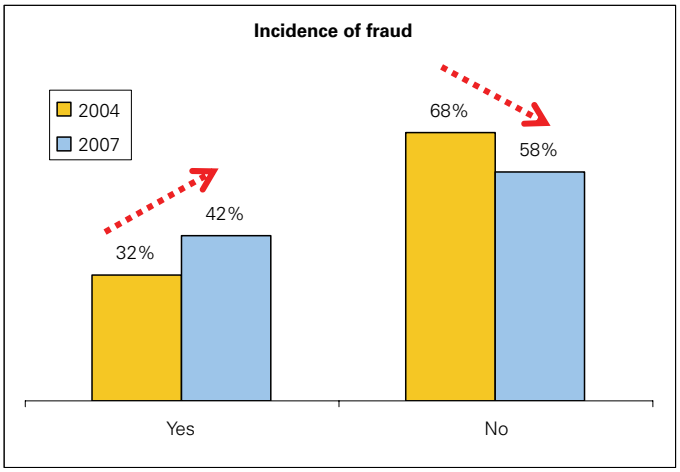
What do the numbers say?

2,179 instances of fraud were reported by respondents to the survey. The total value of fraud represented by these incidents was US$ 114 million. This reflects an average fr aud value of US$ 52K per incident, up from an average of US$ 30K in the 2004 KPMG GCC Fraud Survey. A substantial number of respondents declined to provide additional details although they acknowledged being the victim of fraud.

Incidence of fraud increased by a third from 2004 to 2007

Incidence of fraud

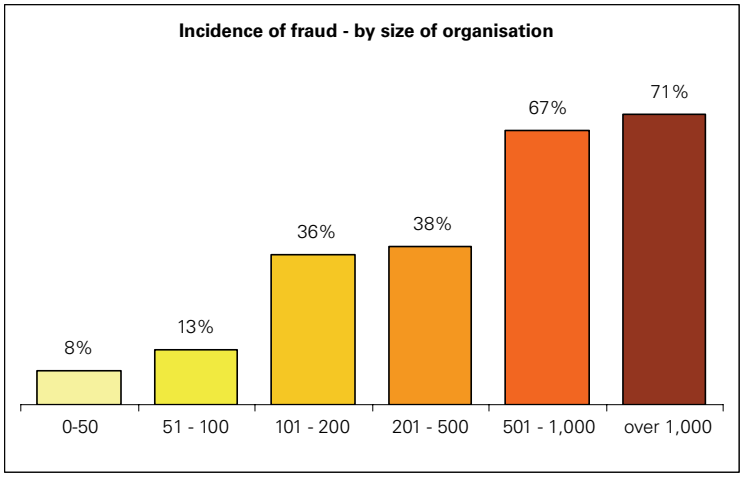
In line with the general view that incidence of fraud is on the increase in the region, 42% (32% in the 2004 KPMG GCC Fraud Survey) of respondents stated that they were aware of fraud occurring within their organization in the past three years.



Two thirds of the respondents in large companies (500 employees and above) reported that they had been a victim of fraud

Instances of fraud higher in large entities

67% and 71% respectively of respondents associated with entities employing 500 – 1000 and 1000 or more employees reported that they had been a victim of fraud - a substantial increase from the 38% and 50% reported respectively in the KPMG 2004 GCC Fraud Survey.



Perpetrators of Fraud

Who are the major perpetrators?

We classified the perpetrators of fraud into two broad categories being:

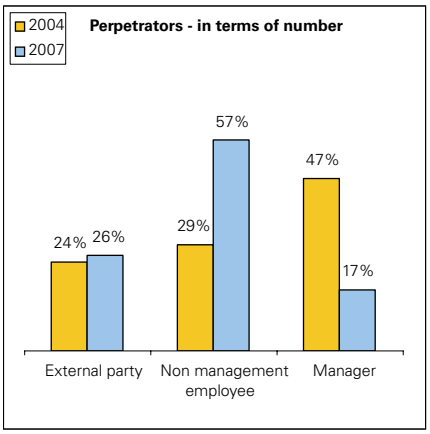
- External; and
- Internal

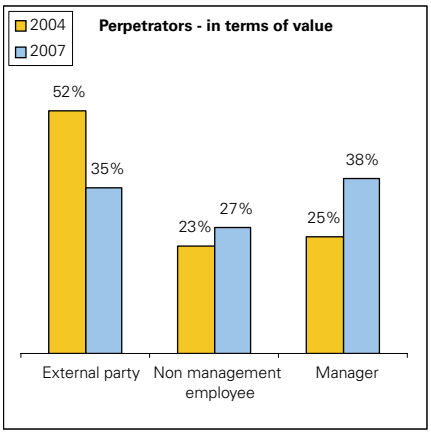
The category classified as 'Internal' was further divided into:

- Management; and
- Non-management employee (junior staff)

The level of internally perpetrated fraud has remained largely unchanged with regard to the number of incidents, but increased substantially from a fraud value perspective

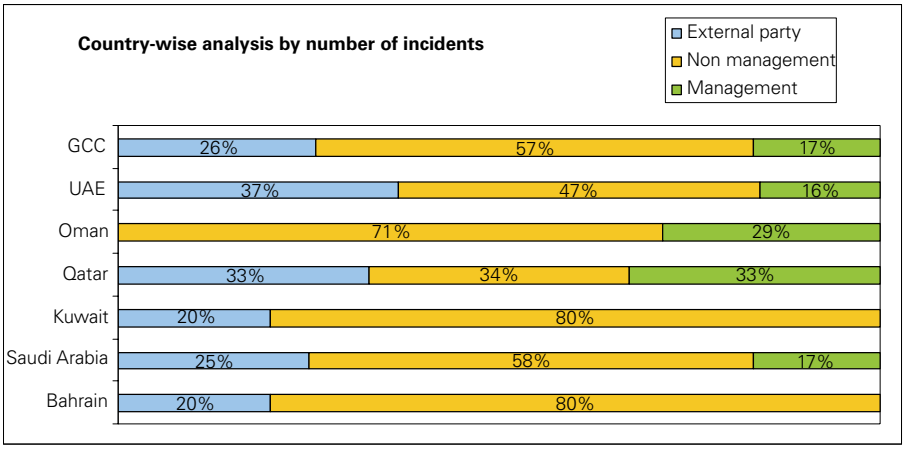
Similar to the findings in the KPMG 2004 GCC Fraud Survey, more than half of the frauds were reported to have been perpetrated internally (management and non-management), whether classified in terms of value or number of incidents. Although the percentage of frauds perpetrated internally remained largely the same (74% in 2007 as against 76% reported in KPMG 2004 GCC Fraud Survey) the percentage of frauds perpetrated by the same group (in terms of value) increased from 48% to 65%.

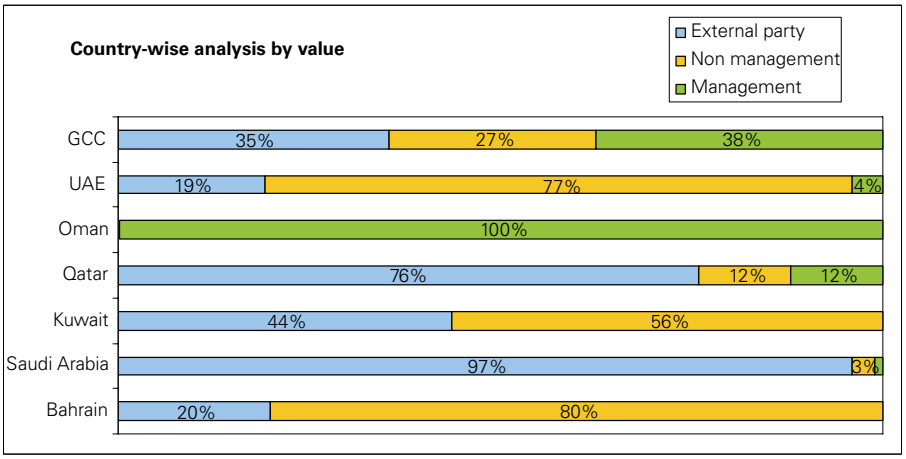




Analysis of the perpetrators of fraud – country-wise

The results for individual countries vary widely in terms of value and number of incidents, as was the case in the KPMG 2004 GCC Fraud Survey.


Country-wise analysis by number of incidents
External party
Non management
Management
GCC
26%
57%
17%
UAE
37%
47%
16%
Oman
71%
29%
Qatar
33%
34%
33%
Kuwait
20%
80%
Saudi Arabia
25%
58%
17%
Bahrain
20%
80%


Country-wise analysis by value
External party
Non management
Management
GCC
35%
27%
38%
UAE
19%
77%
4%
Oman
100%
Qatar
76%
12%
12%
Kuwait
44%
56%
Saudi Arabia
97%
3%
Bahrain
20%
80%

Common types of fraud

The following table shows the most common frauds in each of the countries in the GCC classified based on the class of perpetrator.

Management

Top frauds committed by management	
Bahrain	Funds obtained through misrepresentation
Saudi Arabia	False invoicing
Kuwait	Fraudulent expense claims
Qatar	Kickbacks / bribery / procurement fraud
Oman	Theft of cash receipts
UAE	Payroll fraud

Non – management

Top frauds committed by non-management	
Bahrain	Credit card, petty cash fraud
Saudi Arabia	Manipulation of financial statements, theft of cash receipts
Kuwait	Accounts receivable fraud
Qatar	Petty cash fraud
Oman	Theft of inventory / plant, purchases for personal use
UAE	False invoicing, theft of inventory / plant, manipulation of financial statements

External parties

Top frauds committed by external parties	
Bahrain	Accounts receivable fraud
Saudi Arabia	Electronic funds transfer, kickbacks / bribery / procurement fraud
Kuwait	Cheque forgery
Qatar	Credit card, petty cash fraud
Oman	Theft of inventory / plant, purchase for personal use
UAE	Credit card fraud, cheque forgery

Types of Fraud

Cheque forgery continues to be the most popular fraud type in the region

Largest single instance of fraud

We asked respondents about the single largest instance of fraud they encountered during the period to understand the nature of such frauds. In terms of value, the single largest instances of fraud were:

- Cheque forgery
- Funds obtained through misrepresentation
- Kickbacks / bribery / procurement fraud
- Credit card fraud

Fraud classification and related statistics

We asked respondents to provide as much 'hard data' on the specific instances of fraud with regard to classification, number of instances and value and classified types of fraud into the following base categories:

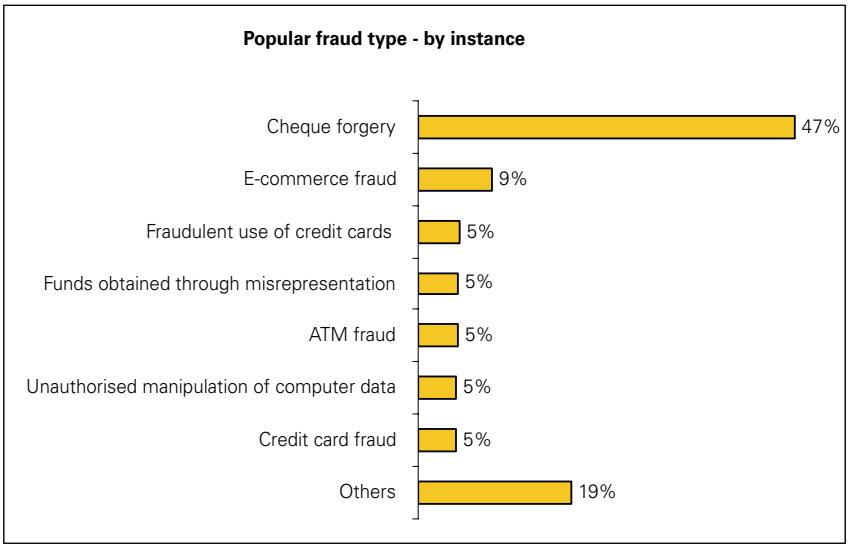
- Asset theft
- Theft of funds
- Financial statement manipulation / funds obtained through misrepresentation
- e-Commerce and computer related fraud
- Corruption
- Identity / consumer fraud
- Distribution channel fraud

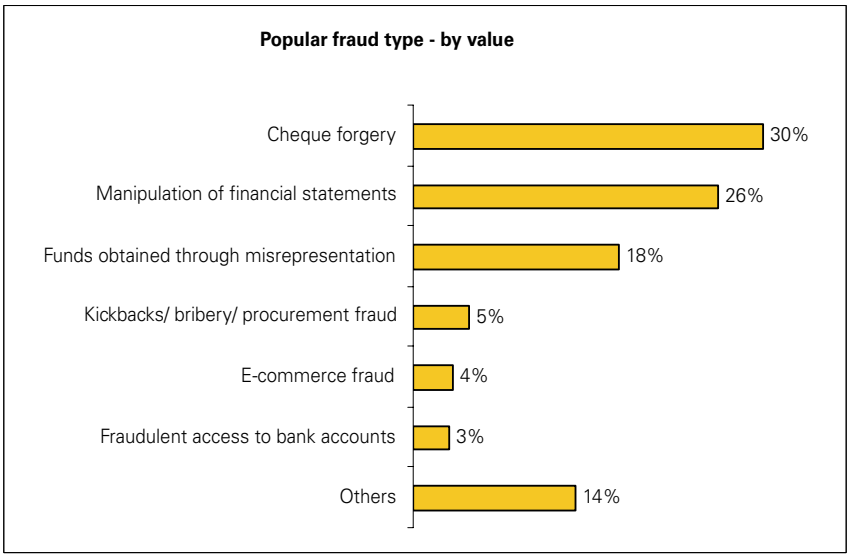
Theft of funds and financial statement fraud led the categories and on an individual basis, cheque forgery leads the list in terms of both value and number of instances of fraud followed by financial statement frauds.

E-commerce and computer related fraud is on the increase in the region

Cheque fraud, relatively less sophisticated, continues to be popular in the region. This might change in the near future as the region grows and attracts more sophisticated resources, practices and cultures. However, financial statement fraud holds the lead in terms of the value of fraud, primarily on account of manipulation of financial statements and underlying accounting records.

As the business environment become more sophisticated, the use of computers and technology is increasing and in line with this there is an increase in e-Commerce related fraud. Though the value of fraud identified in this category is low, we expect a substantial increase in computer related fraud in the future.





Fraud detection and causes

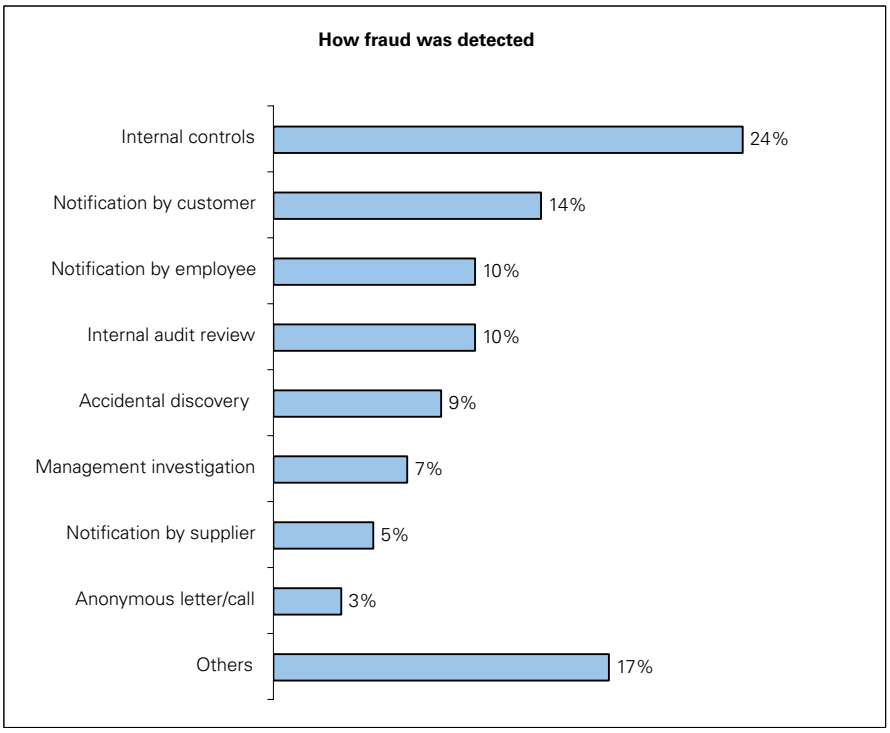
The majority of frauds were detected by internal control procedures and internal audit

How was the fraud detected?

We asked the survey respondents how the single largest fraud was detected. In line with the KPMG 2004 GCC Fraud Survey, a majority of the frauds were discovered by internal audit or internal control procedures. However, more importantly, 'notification by third parties' as a general category (contributing extensively to the detection of fraud) is on the increase. In fact, on a combined basis, notification by employee/supplier and customer exceeded the number of frauds detected individually by internal controls or internal audit.

Notification by stakeholders and anonymous letters / calls contributed to a third of the total instances of detection of fraud

From our experience, stakeholders have been reluctant to report suspicions of fraud or misconduct in an organization. Therefore the rising trend is encouraging and may be a sign of changing times in the region.

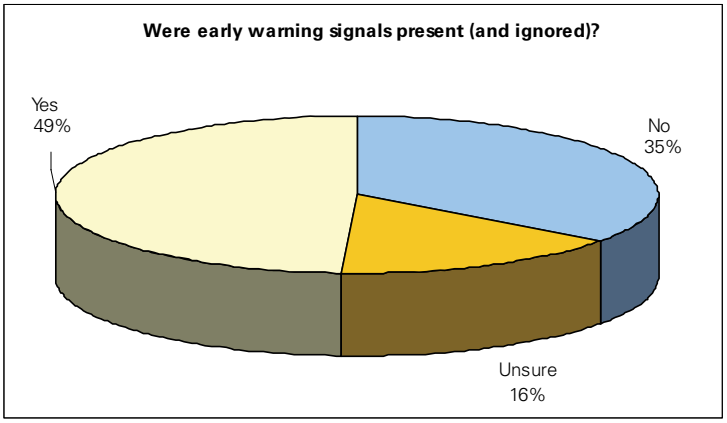


This underscores the need for organizations to maintain an effective internal control system, including a strong internal audit function, and to integrate comprehensive fraud detection measures into their fraud risk management strategy. In addition, an organization should consider how best to gather information from all stakeholders for example through whistle-blowing hotlines and similar alternative mechanisms.

Increase in fraud instances where red flags were present but went unnoticed or were not acted upon

Early warning signs or 'red flags'

Early warning signs or "red flags" are indicators of possible fraud. 49% of respondents indicated that warning signs ignored by their organization would, had they been acted upon, have led to the earlier discovery of the largest single instance of fraud. This statistic has increased substantially from the 36% reported in the KPMG 2004 GCC fraud survey.



An inability to recognize and / or to react promptly to warning signs should be a cause of concern for organizations seeking to build strong fraud risk management strategies. Some of the comments received from respondents on the early warning signs that were evident but not acted upon include:

"Reports not reviewed"

"Non-compliance with contract specifications"

"The accountant was not serious in doing his job"

"Not submitting the cash in a process that usually takes 2 days it took this employee 6 days"

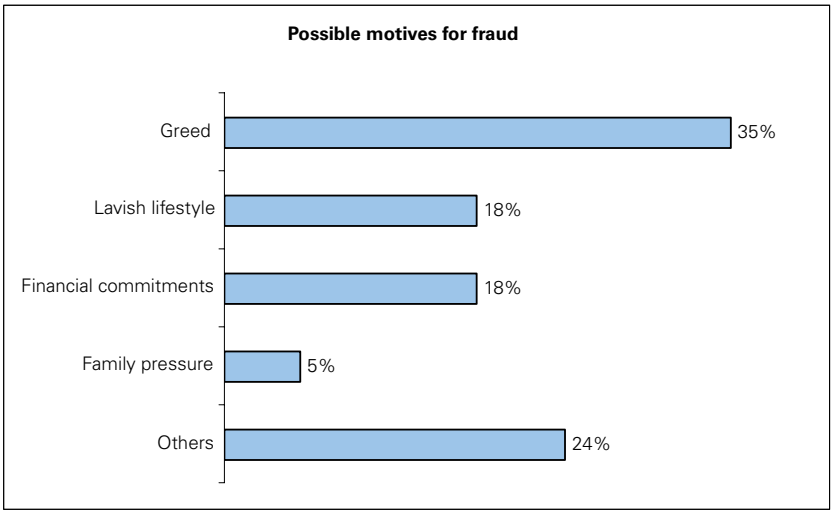
"Lack of fraud awareness"

"He was a trusted employee"

"He was a loyal employee; we never thought he would steal from us"

Motive for fraud

In order to try and understand the underlying causes that triggered the fraudster to commit the fraudulent act, we asked the respondents to identify the factors that led to the single largest fraud in their organization.

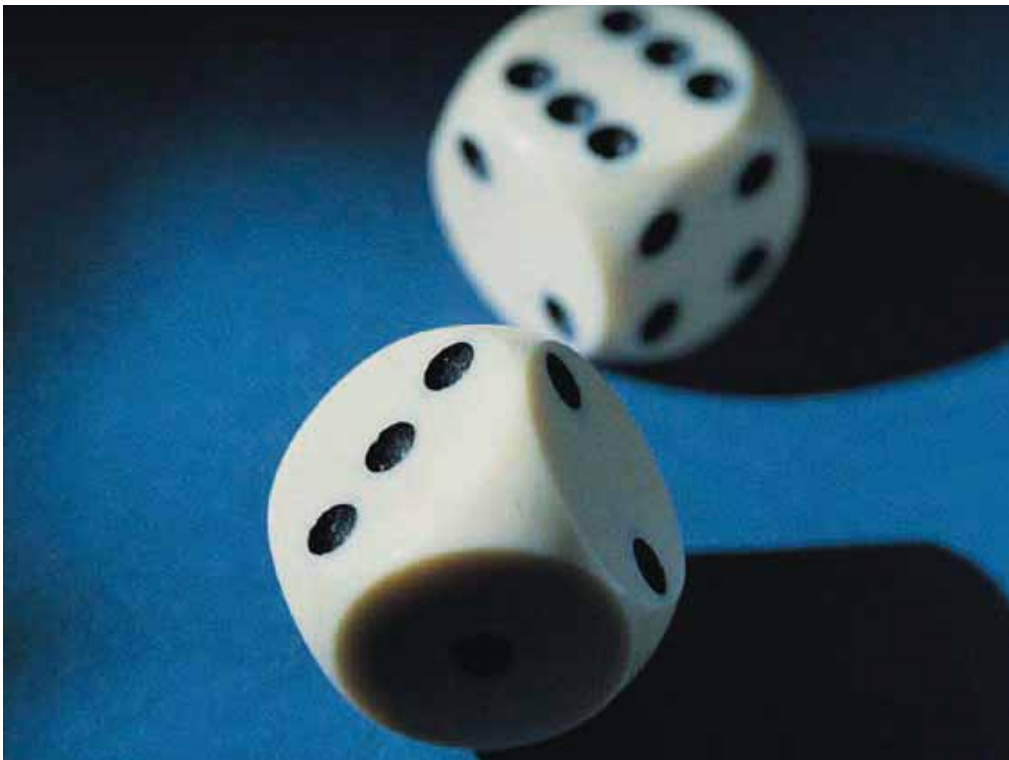


Greed, lavish lifestyle and financial commitments led the list of potential factors that drove the fraudster's behaviour

Three possible factors generally why fraud occurs:

- Opportunity (which is often a function of poor internal controls) ;
- Incentive / pressure; and
- Attitude / rationalization.

Greed, lavish lifestyle and financial commitments led the list of possible reasons for the fraudster to commit fraud. These are well-known motives for committing fraud anywhere in the world. The subject of ethics is discussed later in this report.



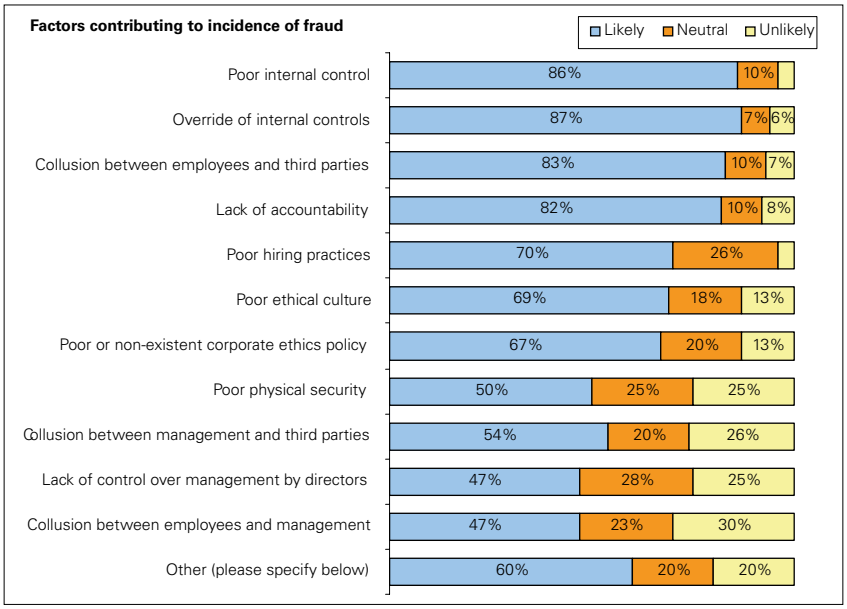
Reasons for fraud and actions taken to fight it

The lack of an appropriate ethical culture has gained considerable prominence as a factor contributing to fraud

Factors contributing to the incidence of fraud

We asked survey respondents what were the factors that contributed to the incidence of fraud in their organization. Similar to the situation in 2004, the lack of strong internal control mechanisms and / or the overriding of those controls contributed to fraudulent activity within organizations followed by collusion between employees and third parties. Other factors which featured prominently included:

- lack of accountability;
- poor ethical culture;
- poor or non-existent corporate ethics policy; and
- poor hiring practices



KPMG comment

While some of the above factors would seem relatively simple to address, in practice this is not happening. For example, if organizations are not checking references properly when taking on new hires then sooner or later they may find a fraudster in their midst. Similarly, if an organization has a poor ethical culture, then it should not be surprised to discover that this reflects in the way its employees behave.

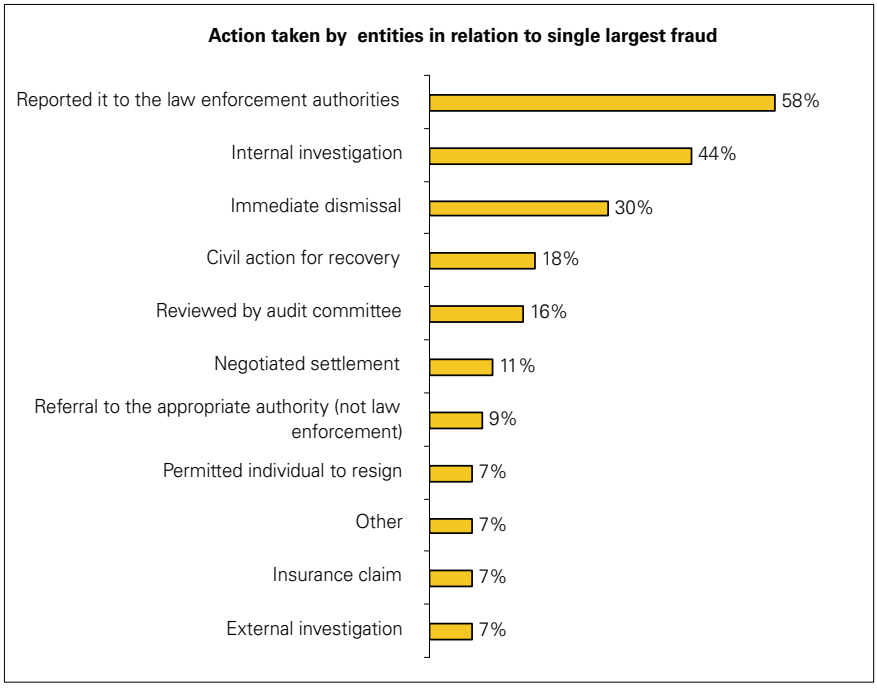
A sincere, deliberate and explicit intent by the management to have high ethical standards is only part of the answer. Fraud detection and prevention has to be recognized as one of the top priorities for the organization to set in motion the process of building the right ethical culture. Post this recognition, effective communication of management's intent, followed by concrete action to set in place a strong fraud risk management framework, will go a long way towards embedding the right culture.

In our experience, managing through fear is ineffective. It enables a manager to bypass controls and may encourage employees to do the same (rather than risk a manager's wrath) or simply to undertake their work without caring about its purpose.

Reporting to law enforcement authorities and initiating internal investigations were the most popular reactions to the single largest fraud incident

Action against perpetrators

58% of respondents indicated that the single largest incident of fraud was reported to the police / law enforcement authorities and internal investigations were carried out by 44% of the organizations. Many of the respondents took multiple actions.



Concern over adverse publicity and / or lack of evidence resulted in a substantial number of respondents not reporting the incident to the law enforcement authorities

Why did some entities not report?

Drawing from our experience in the region, it is not suprising that, although substantial, only 58% of the respondents indicated that the single largest incident of fraud was reported to law enforcement authorities. In expectation of such a response, we asked the respondents to indicate the major reason for not reporting the fraud incident. Concern over adverse publicity and lack of evidence were indicated as the major reasons for not reporting the incident to law enforcement authorities.

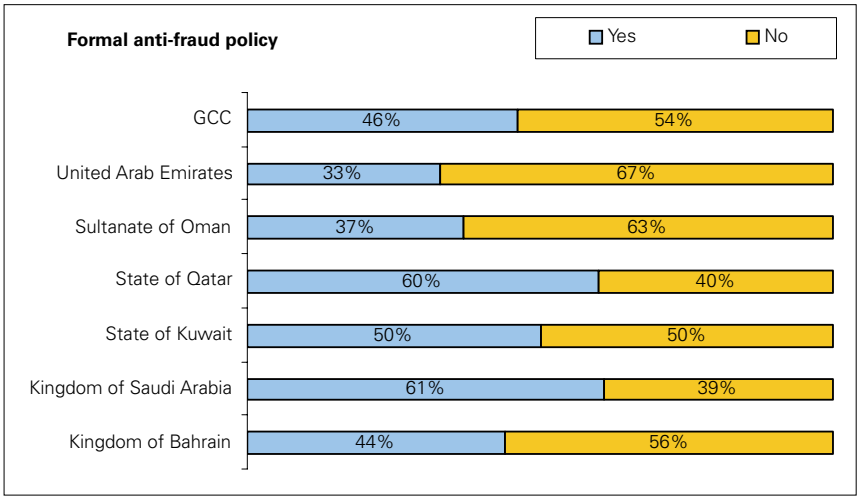
In a few instances, the perpetrator(s) seem to have acknowledged their guilt leading to some form of settlement between the parties. Interestingly, a small minority of respondents had a formal policy not to report such incidents to law enforcement authorities.

Fraud Control

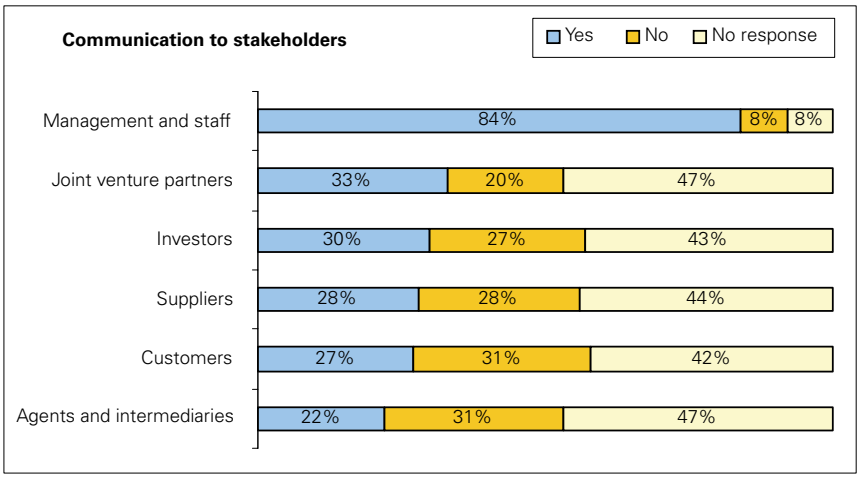
46% of the respondents have a formal anti-fraud policy

Anti-fraud and prevention measures

46% of respondents indicated that their organization had a formal anti – fraud policy. That said, there we re differences between individual GCC countries. An average of 46% of the respondents across the region had implemented some form of anti-fraud or fraud prevention strategy; the remaining 54% of the population needs to take steps to address this deficiency sooner rather than later.



Almost all respondents who have a strategy for prevention of fraud communicated their anti-fraud policy to management and staff, the main stakeholder group. However other stakeholders (such as customers and suppliers) were informed less frequently.



While 46% of respondents had a formal anti-fraud policy, only 58% of the same organizations had a training and awareness programme on that policy.

KPMG comment

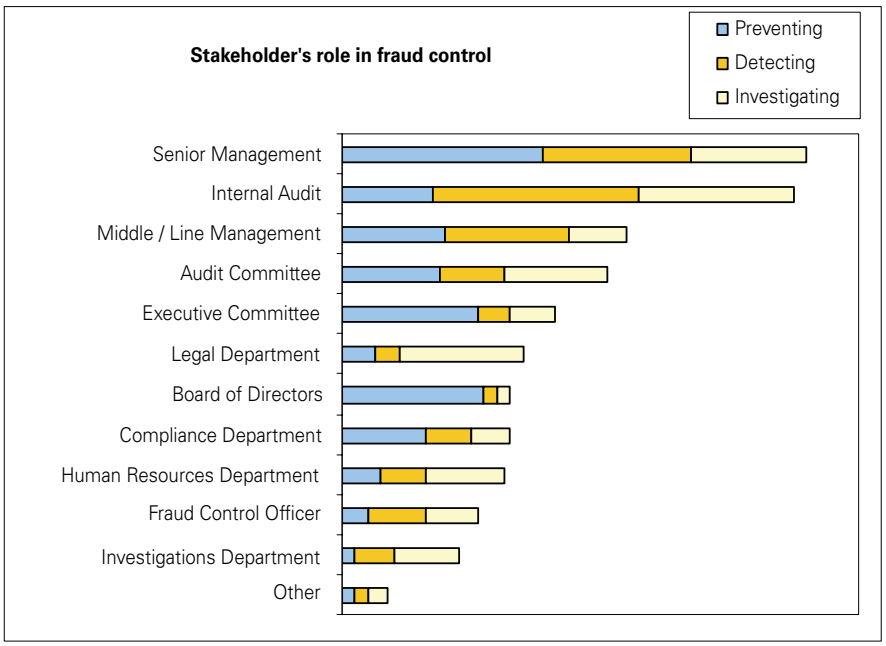
As discussed earlier in this document, clear and actionable goals, underpinned by a strong desire to stave off the risk of being subject to fraud, have to be defined by the top management to help contribute to the success of any anti-fraud policy. As for any strategy, the vision of the key stakeholders has to be converted into measurable, clear and achievable goals. Clear and regular communication of fraud risk policy, the likely reaction of management to incidents of fraud, the level of tolerance (in most cases, none at all) and a strong risk management framework are the bedrock to managing and minimising fraud risk.

One act of fraud can set off a chain reaction with devastating results. One need not look far for instances such as Enron and WorldCom that might have been avoided, had internal controls been stronger. Even in high-profile cases, it is sometimes the strength and courage exhibited by one person who alerts others to what is going on and exposes the truth. In our experience of investigating fraud in the region, we have often come across instances where the fraudster believed that it was his right to earn money through fraudulent means. Again, this comes back to corporate culture and instilling values in an organization that find "white collar" crime objectionable.

The majority of respondents consider that senior management and Internal Audit play a major role in managing fraud risk

Stakeholder's role in combating fraud

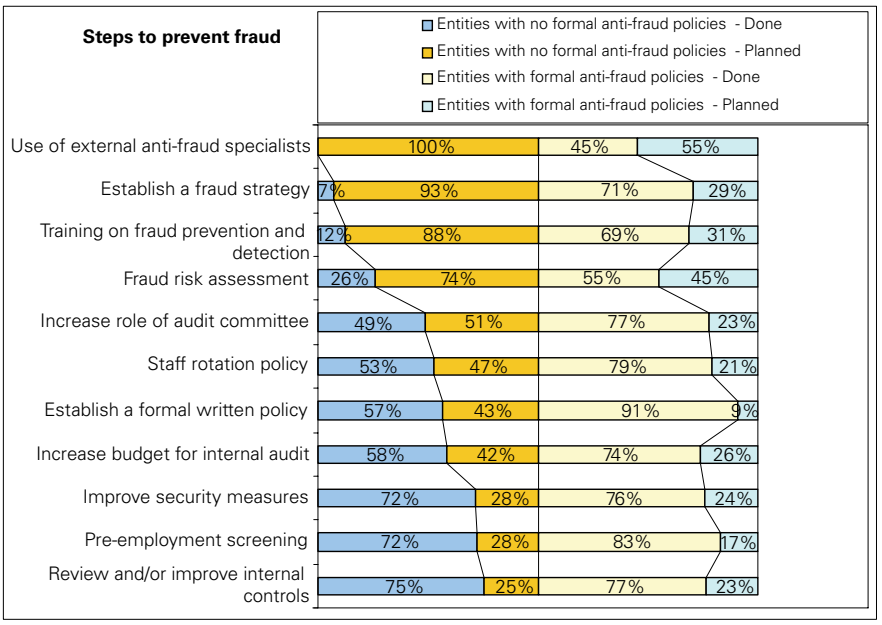
With respect to organizations that had a formal anti-fraud policy, the vast majority of respondents felt that Senior Management and the Internal Audit department were primarily responsible for preventing, detecting and investigating fraud. While the Board of Directors and senior management were felt to be setting the pace for prevention of fraud, Internal audit, middle and senior management were those regarded as primarily responsible for detecting and investigating fraud. Where a separate Audit Committee or Legal Department was operating, such bodies also investigated (or oversaw the investigation of) fraud in equal measure.



Steps undertaken or planned to combat fraud

Adding to findings discussed earlier, organizations with no formal anti-fraud policies in place relied heavily on internal controls to combat fraud.

Most of the entities which had formal anti – fraud policies in place reported implementation of comprehensive steps for combating fraud



Other proactive fraud control measures such as the establishment of a comprehensive anti-fraud strategy, training on fraud prevention and detection, fraud risk assessment etc were rarely in place but many respondents expressed the desire to take such steps in the near future. Most of the different steps to combat fraud (as shown in the graph) were deployed more or less evenly in those entities which reported that they had a formal anti-fraud policy. It appears that such organizations gave sufficient time and effort to understanding the inherent risks of fraud and sought help from specialists in anti-fraud measures to design a comprehensive fraud risk management strategy.

Lack of experience and background in identifying fraud indicators might be hindering the progress of majority of entities

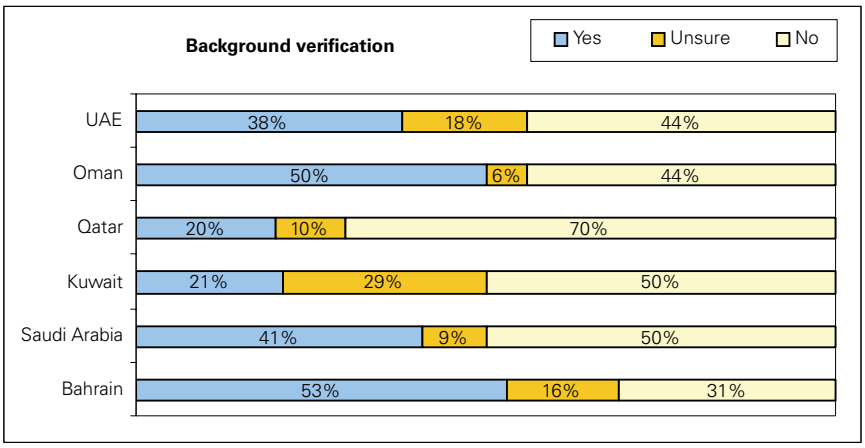
General opinions and behavioural issues

We also asked respondents some general questions relating to fraud in the areas shown below.

Experience and background - While 56% of respondents were satisfied that head office and regional personnel at their organization had the necessary experience and background to identify fraud indicators, 18% were dissatisfied and 26% were unsure. Understandably, respondents from organizations that do not have a formal anti-fraud policy reported lower levels of satisfaction.

Effect of ethical environmental problems – 34% of respondents believed that 'ethical' problems such as bullying, harassment and discrimination were increasing the risk of fraud. 53% considered such problems as having no effect on fraud risk and 13% were unsure.

Background verification – Only 42% of respondents confirmed that their organization performed appropriate checks on current and potential employees to identify any previous involvement with issues around fraud or misconduct, hidden business interests and family connections that could compromise their position.



KPMG comment

The survey results in this area were in line with what one would expect. Entities with a formal anti-fraud policy had a much clearer idea of the fraud risks they faced. While many organizations expressed the intention to adopt an anti-fraud policy in the near future, this may not happen without a real push from top management.

Fraud reporting

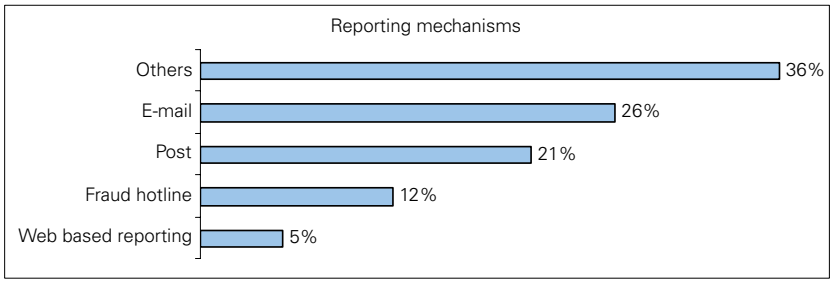
61% of the organization had no clear reporting policy or mechanism

Overview

We sought to understand the processes and mechanisms employed by organizations to communicate concerns relating to suspicious conduct. The results were not unexpec ted considering the extent of implementation of anti-fraud policies in organizations in the region. 61% of respondents reported that their organization had no clear reporting policy or any mechanism to report anonymously suspicions of fraud, corruption or unethical conduct.

Reporting mechanisms

Email and post were the most popular method of reporting fraud and suspicious conduct in organizations that had reporting mechanisms. However, a majority of respondents indicated the existence of mechanisms that can be considered, at best, as fluid and potentially ineffective.



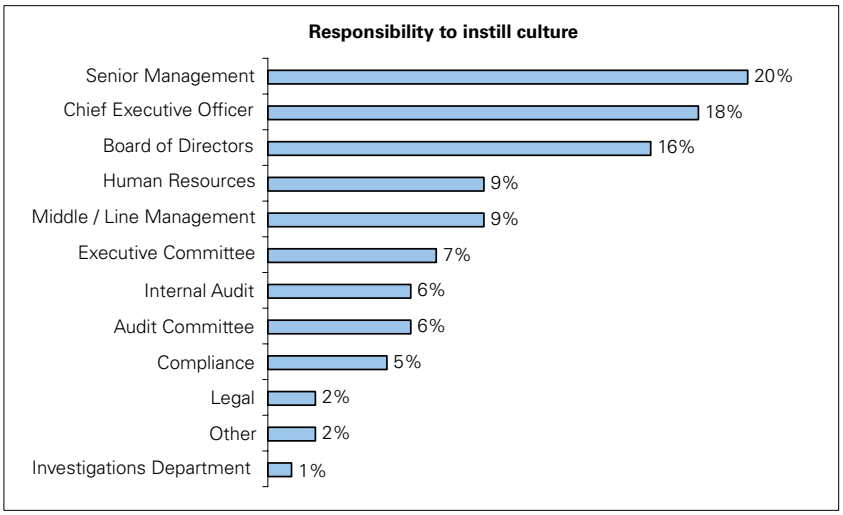
Some of the methods classified as 'others' are shown below:

"Internal meetings"	"Nothing, only policy"
"Meeting with HR"	"Secret channels with the CEO"
"Facsimile"	"Supervisor and management"
"Meeting the supervisor anytime at his house"	"Internally between staff and management"
"Suggestion box"	"Personal Reporting"

Top management is expected to instill a culture of zero tolerance to fraud

Who is responsible for setting the corporate culture?

We asked respondents as to who, in the corporate set up, was responsible for embedding a culture of integrity and ethics in their organization. The answer, as expec ted, was top management. This view was reinforced by survey findings.



KPMG comment

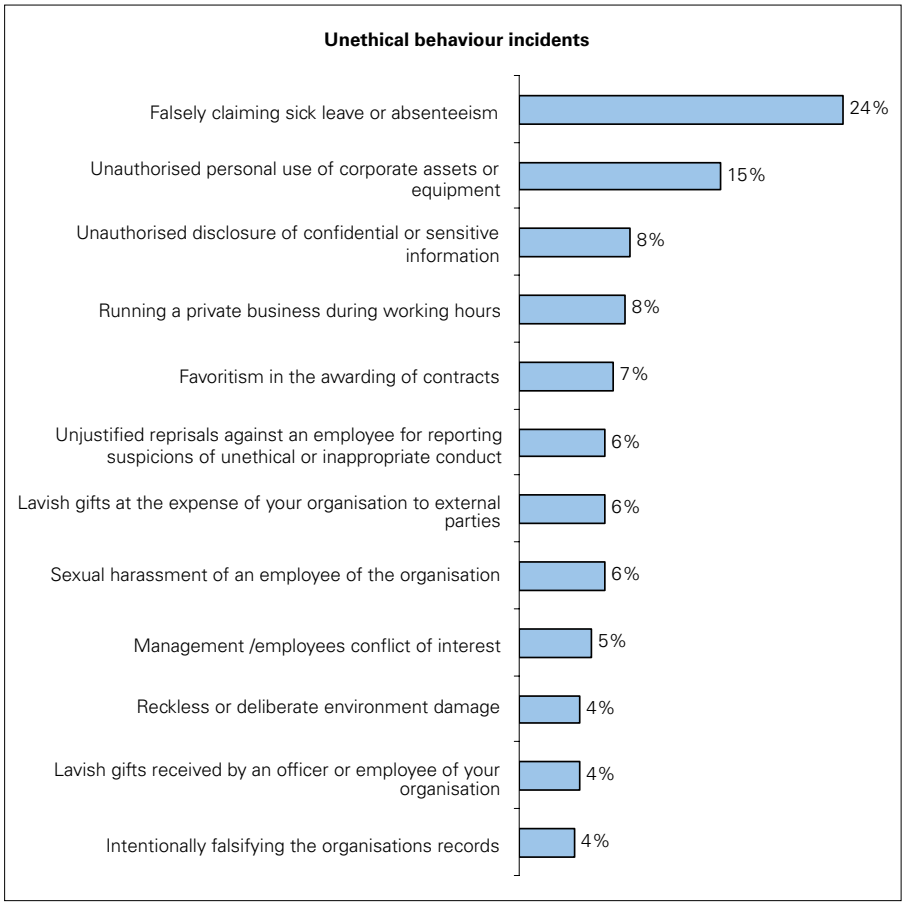
In summary, many organizations lacked a formal reporting mechanism for suspicions / concerns. This probably explains why, organizations often realize, after the event, that there were enough red flags to indicate that there was a problem but that they were not gathered together in any formal way.

Ethical and improper conduct

The lack of an appropriate ethical culture has gained considerable prominence as a factor contributing to fraud

Survey findings

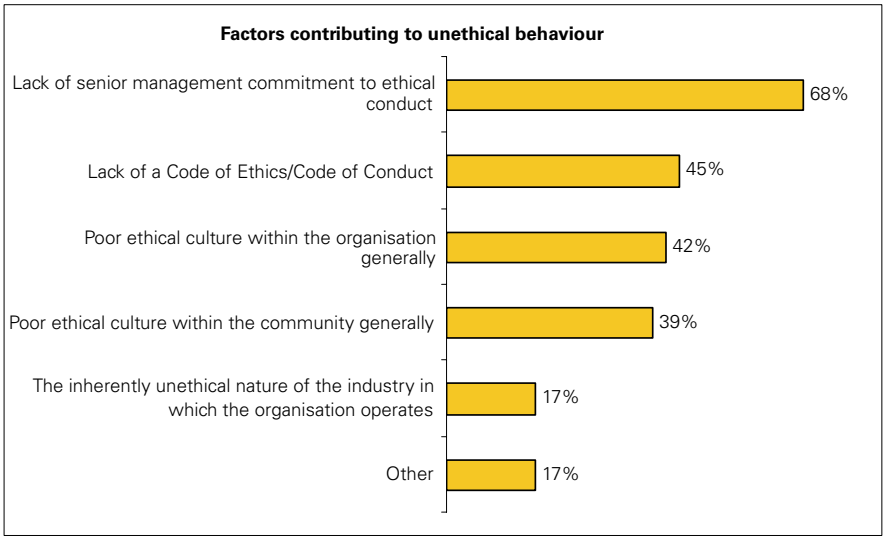
Issues such as conflicts of interest, intentionally falsifying records (not for personal gain), sexual harassment, favouritism while awarding contracts, lavish gifts, falsely claiming sick leave etc are examples of potentially unethical behaviour. We believe that the prevalence of incidents that are considered relatively less harmful lead to a culture that is more conducive to fraud and misconduct. By taking little or no action when confronted with such incidents organizations may unintentionally encourage the potential fraudsters to commit acts of fraud and misconduct that could result in tremendous harm to the organization.



25% of respondents indicated that they observed unethical or improper conduct in their organization while 22% were unsure. This statistic has worsened when compared with the KPMG 2004 GCC Fraud Survey when only 17% and 11% respectively had observed improper conduct or were unsure. If representative, this would be indicative of a growing tendency amongst employees in the region to commit unethical or improper acts.

Factors contributing to unethical behaviour

The reasons behind a culture of unethical behaviour existing in an organization mirror the results of the KPMG 2004 GCC Fraud Survey. While 68% of the respondents considered lack of senior management commitment to ethical conduct or poor examples shown by senior management as a top factor, lack of a formal code of ethics / code of conduct, poor ethical culture within the organization and community in general, and a lack of commitment from senior management to promote / demand ethical conduct followed close behind.



Profile of a Fraudster

Synopsis of findings from the Profile of a Fraudster Survey 2007

KPMG prepared a survey report outlining the typical profile of a fraudster based on our experience from a number of fraud investigations across the EMA region (Europe, Middle East and Africa). We reproduce a synopsis of the findings of the survey below.

- 70% of fraudsters were in the age group 36-55 and 85% were male
- 68% acted independently and 89% were employees committing fraudulent acts against their own employer
- Members of senior management (including Board Members) represented 60% of the profiles while an additional 20% involved other management level persons
- 36% of the profiles were cases where the perpetrator worked for his/her company for 2-5 years before committing the fraud while 22% worked for more than 10 years
- Internal fraudsters often worked in the Finance department followed by operations / sales or even CEO
- Misappopriation of funds was revealed as the most common type of fraud
- 91% of perpetrators performed multiple fraudulent transactions; almost a third acted more than 50 times
- For 24% of the profiles the timeframe for perpetrating fraudlent acts was less than a year, for 67% of the profiles the fraudster operated for a period of 1-5 years before he/she was exposed or stopped his/her fraudulent activities
- Greed and opportunity are indicated as overriding motivations for fraud in the case of 73% of profiles
- No prior suspicion existed for more than half of the profiles but for 21% of the profiles the companies did not act, even though there was prior suspicion.
- Perpetrators were able to commit fraud by exploiting weak internal controls (49% of profiles) while fraudsters were mainly detected by whistle-blowers or management reviews (accumulated 46%).

Anti – bribery legislation

The US FCPA and its effect on the region

The US Foreign Corrupt Practices Act ("US FCPA" or "the Act") was enacted in 1977 in response to a number of scandals that affected the USA and was designed to restore public confidence in the integrity of the US business system. The Act has extra-territorial reach and makes it a criminal offence for a director, employee, agent or any third party acting on behalf of a US domestic concern or SEC registrant to make payments to a foreign official for the purpose of obtaining or retaining a business advantage. The Act also requires publicly held US companies and foreign companies listed on US Stock Exchanges, to maintain accurate books and records and to devise and maintain an adequate system of internal accounting controls so that bribes cannot be concealed or disguised.

Since 2001, the US Department of Justice and Securities and Exchange Commission have become more active with regard to the FCPA. Numerous investigations have been launched, the results of which have led to imprisonment in some instances as well as substantial fines on both individuals and entities.

An important aspect of the US FCPA is its extra-territorial reach. Foreign nationals can be held liable for their improper conduct if they are employees or agents of US companies, or for conduct they undertake within the US that furthered a corrupt payment. US multi-national companies often partner with local entities who act as agents to sell products or provide services on their behalf. In the Gulf Co-operation Council region, if the relationship is of the nature of principal – agent, the provisions of the US FCPA are likely to be applicable.

We have seen an increasing number of investigations / controls reviews being launched in the region by multinationals which often extend to the operations of their agents. This has led to some regional organizations seeking to refine their own anti-bribery and anti-fraud policies and to implement additional controls in this area.

New challenges on the horizon

Intellectual Property / Contract compliance

As the economies in the GCC continue to expand and investors demand more accurate financial reporting and exemplary corporate governance, businesses (multinational and local) need to understand better the potential risks emanating from self-reporting relationships.

A typical self-reporting relationship involves a trust-based arrangement written into a contract that requires the reporting of information such as sales under a license, records of payments, or the disclosure of expenses. KPMG estimates that the worldwide self-reporting economy is at least $300 billion, and that 70 percent of self-reported statements are inaccurate because of misunderstandings, mistakes, and occasional deliberate misstatements, all of which lead to financial risks.

Despite financial and regulatory risks, the self-reporting economy is increasing. Expanding global and local competition, shrinking profit margins, and increasing costs are prompting managers to consider a variety of tactics to help the bottom line. In this scenario, it is important for an organization to evaluate risks in self-reporting relationships and to take appropriate steps to mitigate these risks.

Identity fraud

Identity fraud is slowly but surely gaining a foothold in the region. Indeed, this survey shows the emergence of e-commerce as a popular means of undertaking business in the region which also results in an increasing trend of e-commerce related fraud. The most common type of identity fraud is 'phishing', where the perpetrators try to obtain confidential customer information such as user-id and password to siphon away funds from online bank accounts. Phishing is not limited to bank accounts, but also credit cards and corporate information in the case of investment banking. Identity fraud can span from the most simple and crude such as the West African email scam (a type of advance fee fraud where unsuspecting individuals are lured by an email from the perpetrator to join hands in transferring huge amounts of money for a small cost which the individual is asked to pay in advance) to the the highly sophisticated frauds such as installing Trojan programs in unprotected or less protected computers to obtain user ids, passwords, credit card information etc.

KPMG Forensic

KPMG Forensic is in the business of dealing with issues where facts, people and organizations do not agree, or where financial or other business related behaviour may not comply with expectations.

The Middle East and South Asia (MESA) Forensic practice was established in 1999. Our Forensic professionals are drawn from diverse backgrounds including accounting, auditing, investigations, law enforcement, information technology, and project management thereby bringing in extensive experience and specific skills sets. Apart from being the largest provider of forensic services in the region, we are able to draw upon vast pool of more than 1,600 professionals from our global network of accredited forensic practices across the globe each one being familiar with local business practices and forensic issues.

KPMG's Forensic practice aims to provide an independent, proactive and responsive service to its clients.

We provide clients in the Middle East & South Asia region with the following specialist services:

- Fraud and misconduct investigations
- Fraud Risk Assessment (including ethics & integrity services)
- Dispute Advisory services
- Corporate Intelligence services
- Anti Money Laundering advisory and Asset tracing
- Forensic technology services
- Intellectual Property and Contract Governance services

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