

KPMG - missing the point on international fraud

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In an age when criminals can digitally flash stolen money and intellectual property across the globe in an instant, corporations are often ill-prepared to investigate fraud or misconduct quickly if it occurs in a country other than where they are headquartered.

So says KPMG in a [press release](#) issued yesterday. They go on to say:

In a KPMG survey of senior business executives in 21 countries, 92 percent of respondents said they expect the number of international investigations to increase or at least remain the same in the coming year, yet 56 percent said they have not implemented comprehensive investigation procedures.

The comment that:

Fraudsters operate undeterred by global boundaries and companies must therefore be increasingly focused on the steps they need to take to prevent, detect and respond to fraud.

Their solution is predictably technical, including:

- Assessing "better practice" capabilities including in particular the use of forensic technology
- Assessing investigation protocols
- Developing a written incident-response document.

These measures and the other long list like them are wrong. There are five things to do:

- 1) Avoid operations in places where the risk of fraud is high as it is widely tolerated. Tax havens and offshore financial centres are the obvious examples;
- 2) Avoid places where the culture of transparency is low. Dare I say it, but tax havens and offshore financial centres are the obvious examples;
- 3) Avoid complex transaction and group structures as these are opaque. Tax driven arrangements involving tax havens and offshore financial centres are the obvious examples;
- 4) Set standards of transparency and accountability that are as high as possible. Go for country-by-country reporting, for example, to make clear that management (where most of this fraud happens) is accountable wherever it is;
- 5) Set a public benchmark of avoiding the situations where fraud is likely by providing

this information to shareholders and others so that they can see that risk in this area has been reduced as far as possible.

KPMG's solution is a finger in the dyke approach. My solution is to provide the cultural environment where these things are much less likely to happen.

I know which is more likely to work.