

# Redefining financial audits in global supply chains:

A Middle East perspective

A supply chain encompasses the entire network of activities, people, and resources involved in transforming raw materials into finished products and delivering them to the final consumer. In today's interconnected global economy, components of a smartphone may originate from multiple countries before assembly, and coffee beans travel continents before reaching your cup.

The Middle East's strategic position as a global logistics hub, its dominance in energy markets, and its ambitious economic diversification plans mean that global supply chain disruptions uniquely impact the region.

Auditing companies with significant global footprints is no longer a simple review of internal ledgers. It now requires a forensic examination of a dynamic, cross-border ecosystem marked by new risks and challenges, particularly in the Middle East, where organizations face:

- **Complex legal and regulatory compliance:** Companies must comply with local regulations such as the UAE's Personal Data Protection Law (PDPL), which governs cross-border flows.
- **Currency exposure:** Operating across multiple countries exposes organizations to exchange rate fluctuations, making it complex with pegged currencies like the UAE Dirham (AED) and Saudi Riyal (SAR), and volatile ones like the Egyptian Pound (EGP).
- **Supply chain fraud risks:** Common schemes include fictitious vendors, duplicate payments, kickbacks, bribery, data manipulation, cheque tampering, and sanctions violations.<sup>1</sup> Sanctions compliance is particularly critical in the Middle East due to geopolitical sensitivities and trade restrictions.

A thorough audit must therefore examine the entire supply chain—from procurement to payments—emphasizing the controls such as Know Your Customer (KYC) checks and transfer pricing compliance to identify risks of material misstatement in this dynamic environment.

This article highlights the key risks arising from global supply chains and outlines audit procedures to address them.

### Valuation and existence of inventory

Inventory held across multiple global locations complicates physical verification and valuation. Specific risks include timing of shipments, clarity of International Commercial Terms (Incoterms), reliance on third-party warehouses, and free zones—particularly in hubs like the UAE and Saudi Arabia. Increasing freight, insurance, and other direct costs must also be correctly included in inventory valuation.

#### Audit procedures

- Observe and/or perform test counts simultaneously at significant inventory locations, including smaller sites to ensure unpredictability.
- Test transactions near year-end; trace high-value shipments to shipping documents (bills of lading, receiving reports, and sales invoices) and confirm Incoterms to determine ownership transfer.
- Obtain direct confirmations for consigned goods or inventory held in third-party warehouses at the reporting date; consider alternative procedures if confirmations are not received or are unreliable.
- Validate inventory costs by testing freight invoices, customs certificates, and testing of allocation methods for

overheads and other indirect costs, and verify the mathematical accuracy of cost calculations.

- Challenge and document management's obsolete inventory provisions by comparing slow-moving stock to recent sales and market prices, considering regional inflation, and reviewing subsequent sales or write-offs as corroborative evidence.

The Middle East's strategic position as a global logistics hub, its dominance in energy markets, and its ambitious economic diversification plans mean that global supply chain disruptions uniquely impact the region

### Impact on going concern, provisions, and disclosures

Supply chain disruptions arising from geopolitical tensions, tariffs, or supplier issues can affect going concern assumptions and provisions. Examples include:

- Overdependence on suppliers in politically sensitive regions
- Supplier shortages, personnel loss, or bankruptcy
- Fixed-price contracts becoming onerous amid inflation
- Regional conflicts blocking key shipping lanes, causing delays and cost increases (e.g., Suez Canal disruptions in 2023)

#### Audit procedures

- Evaluate and challenge management's assessment of the entity's ability to continue as a going concern. Where events or conditions are identified that may cast significant doubt, perform additional procedures as required.
- Evaluate management's assumptions (e.g., sensitivity analysis, corroborative evidence) and estimates related to supply chain risks.
- Obtain confirmations from key suppliers and logistics partners, and review contracts and other documents for completeness.
- Perform analytical procedures comparing costs and margins to prior periods and budgets. Challenge management on any unusual fluctuations noted.
- Assess going concern by reviewing cash flow forecasts, including evaluating the reliability of the underlying data generated to prepare the forecast, debt covenants, and borrowing facilities.
- Evaluate management's mitigation plans, such as securing financing or changing suppliers.

- Assess whether the financial statements contain adequate disclosures related to going concern, including the completeness and accuracy of contingencies, critical judgments, and the implications of subsequent events.

### Revenue recognition

Global supply chain risks in the Middle East—geopolitical disruptions, logistic delays, reliance on intermediaries—impact revenue recognition timing and measurement, including principal versus agent roles. Multiple delivery points, consignment stock, and third-party warehouses complicate control transfer assessments.

#### Audit procedures

- Conduct a thorough risk assessment at the assertion level and assign a presumed fraud risk to identify instances of fictitious or premature revenue recognition.
- Assess contract terms for delivery and acceptance conditions.
- Analyze the company's role to determine principal or agent status.
- Determine the appropriate point in time for revenue recognition accordingly.
- Perform testing for one operating cycle pre- and post-year-end to address the risk of cut-off.
- Incorporate unpredictability into audits by testing new controls and performing non-routine analytics.
- Evaluate the accuracy and completeness of the policies and key judgments disclosed in the financial statements, and ensure the compliance with the applicable accounting standards. 

Supply chain disruptions arising from geopolitical tensions, tariffs, or supplier issues can affect going concern assumptions and provisions

# Global supply chain risks in the Middle East—geopolitical disruptions, logistic delays, reliance on intermediaries—impact revenue recognition timing and measurement, including principal versus agent roles



## Cybersecurity risk

Cyber-attacks pose significant risks to supply chain management,<sup>2</sup> including:

- Third-party access creating potential "back doors" if not well managed or monitored
- Suppliers storing sensitive data increasing breach exposure
- Compromised supplier systems facilitating malware or phishing attacks

In the Middle East, rapid digital transformation (e.g., Saudi Vision 2030) heightens these due to increased reliance on cloud services and the Internet of Things (IoT).

### Audit procedures

- Involve an IT specialist for complex cybersecurity risk assessments.
- Understand the controls over vendor system access and monitoring, and test them for design and implementation (D&I) effectiveness. If D&I is effective, consider performing the test of operative effectiveness of the relevant controls.
- Assess supplier data protection and security protocols.
- Evaluate cloud and IoT security compliance.
- Review management's oversight of supplier cybersecurity risks.
- Evaluate the impact of cybersecurity incidents on financial reporting and disclosures.
- Verify and evaluate the adequacy of the business continuity plan (BCPs) for responding to data breaches.



## Increased fraud and operational risk

Geographical dispersion, operational pressure, and complex logistics create opportunities for asset misappropriation and fraudulent financial reporting. Specific Middle East risks include:

- Remote operations under pressure to perform in a competitive, fast-growing region
- Incentives to overstate inventory or record fictitious sales
- Collusion with suppliers to inflate costs

### Audit procedures

- Conduct fraud risk brainstorming sessions to identify potential schemes.
- Document all identified risk factors and directly link audit procedures to these assessed risks while incorporating an element of unpredictability in the audit procedures planned and performed.
- Evaluate the D&I of relevant controls to address the risk of fraud.
- Incorporate unpredictability while conducting fraud inquiries by interviewing individuals in roles beyond those that are required.
- Apply data analytics like Benford's Law to logistics invoices and analyze datasets for irregular purchase patterns and discrepancies.
- Review accounting estimates for bias and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.
- Evaluate and assess any significant unusual transaction identified during the course of business.
- Test journal entries and other adjustments for possible management override of controls.
- Consider surprise inventory counts or enhanced review of related party transactions.
- Ensure diligent follow-up on any whistleblower reports or complaints related to fraud.

## Geographical dispersion, operational pressure, and complex logistics create opportunities for asset misappropriation and fraudulent financial reporting

Global supply chains underpin business growth, and the Middle East's strategic location, free zones, and economic ambitions position it as a global logistics and manufacturing hub. However, this brings increased complexity and risk in financial reporting and audit assurance. Auditors must adopt a nuanced, regionally informed approach that integrates local regulations, geopolitical dynamics, and emerging risks such as cybersecurity. Only through tailored, comprehensive audit procedures can organizations confidently navigate global supply chains and uphold financial statement integrity in a rapidly evolving environment.

By **Samina Rangoonwala**, Director and **Swetha Ramachandran**, Senior Manager, External Audit, Deloitte Middle East

### Endnotes

1. 6 Common Vendor Fraud Schemes: How to Identify & Prevent them | Tipalti. <https://tipalti.com/en-uk/resources/learn/vendor-fraud/>.

2. Risks in the supply chain. <https://www.accaglobal.com/learning-and-events/cpd-articles/audit-and-assurance/risks-in-the-supply-chain.html>.