

PRESENTATION

OF PROFESSIONAL
SERVICES

**with respect to the financial investigation (forensic)
and development of the fraud
management program**

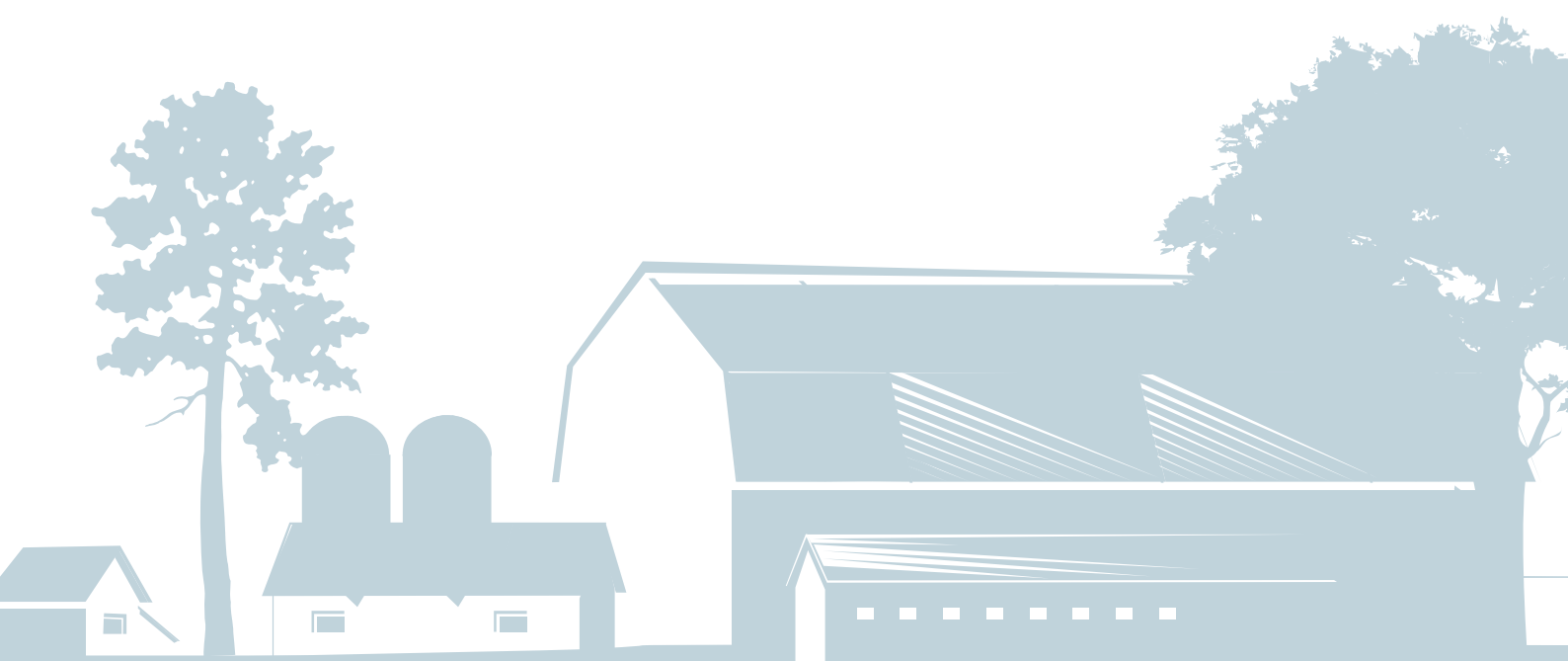


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PROBLEMS OF THE CLIENTS

Economic crisis and economic downfall in Ukraine draws an increased attention of the business owners to operating efficiency of the companies.

ONE OF THE REASONS OF THE **LOST PROFIT** IS FRAUD AND NEGLIGENCE OF THE PERSONNEL

WHAT IS THE EXTENT OF ACTUAL LOSSES AND POTENTIAL DAMAGE CAUSED BY THE ABUSIVE ACTS?

5 %
of the income
(globally, according to ACFE)

5-15 %
of the income
(in Ukraine, according to estimates of Kreston GCG)

HOW DO LOSSES OCCUR?

01 Bribery and corruption

- Illegal gifts
- Economic blackmail
- Kickbacks
- Bribery
- Transactions with affiliated parties under non-market terms

Information theft

02 Appropriation and misuse of assets

- Theft of funds
- Illegal use of assets
- Direct theft of assets
- Fictitious transactions and overpricing
- Unjustified or unreasonable expenses
- Purchase of unmarketable goods
- Unjustified writing off

Sabotage

03 Misrepresentation of the financial statements

- Illegal revenue recognition
- Concealment of liabilities and revenue
- Overstatement of assets
- Misrepresentation of disclosures to the statements
- Manipulations with transaction recognition periods
- Under-reporting of liabilities and revenue
- Fabrication of contracts and initial accounting documents

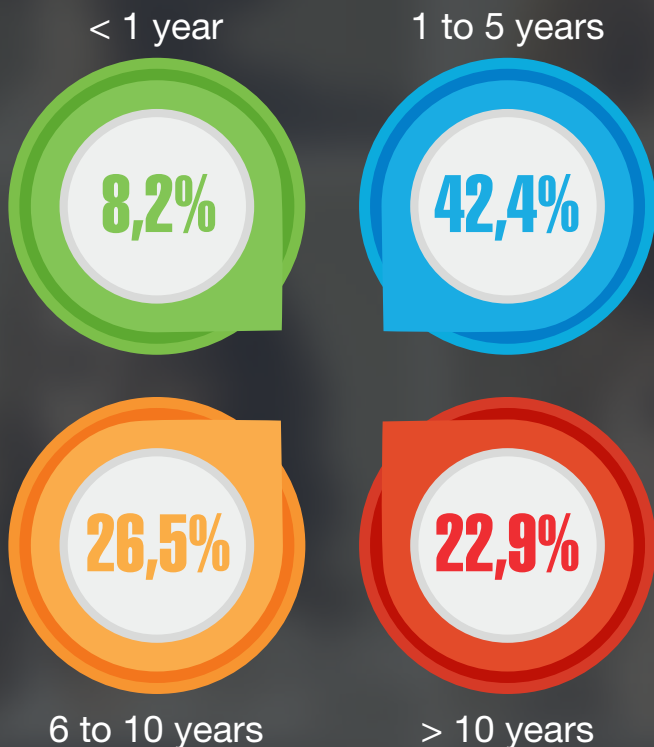
Negligence

- Embezzlement and overstatement of expenses
- Work with unreliable contractors

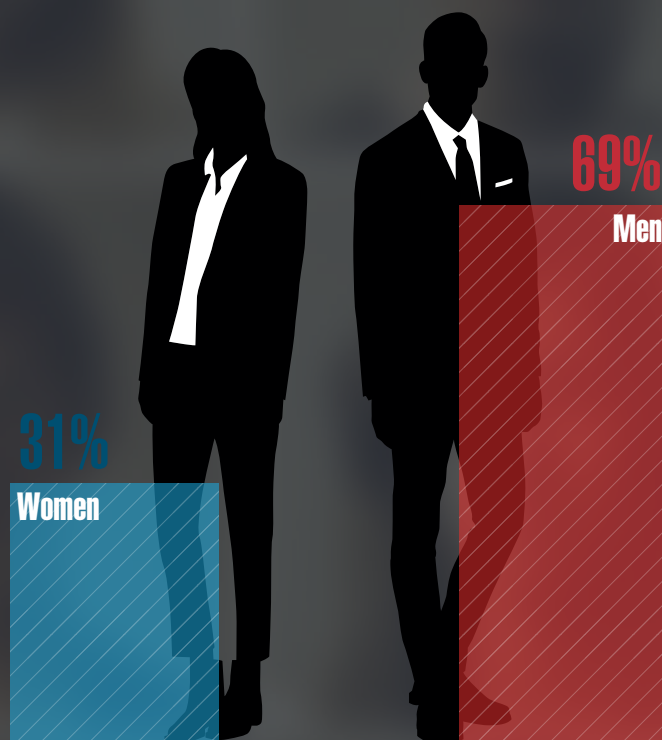
EXAMPLE OF CORPORATE FRAUDSTER

According to the results of investigation by ACFE (2016)

YEARS IN THE COMPANY



SEX



POSITION IN THE COMPANY

Middle level employees – 40.9 %
Management – 36.8 %
Owners/Top management – 18.9%
Other – 3.4%

INDUSTRIES

Banks – 16.8%
Public sector – 10.5%
Manufacture – 8.8%
Medicine – 6.6%
Retail – 4.8%
Construction – 3.9%

TYPES OF FRAUD

Appropriation of assets – 83.5%
Corruption – 35.4%
Misrepresentation of the financial statements – 9.6%

SIGNS OF BEHAVIOUR

Self-indulgence – 45.8 %
Financial difficulties – 30 %
Fraudulent propensity – 15.3%
Excessive familiarity with suppliers/buyers – 20.1%
Unwillingness to delegated powers - 15.3%
Divorce/family problems – 13.4%
Suspiciousness, distrust – 12.3%
Complaints about low salary – 9%
Unwillingness to take a vacation – 7.8%

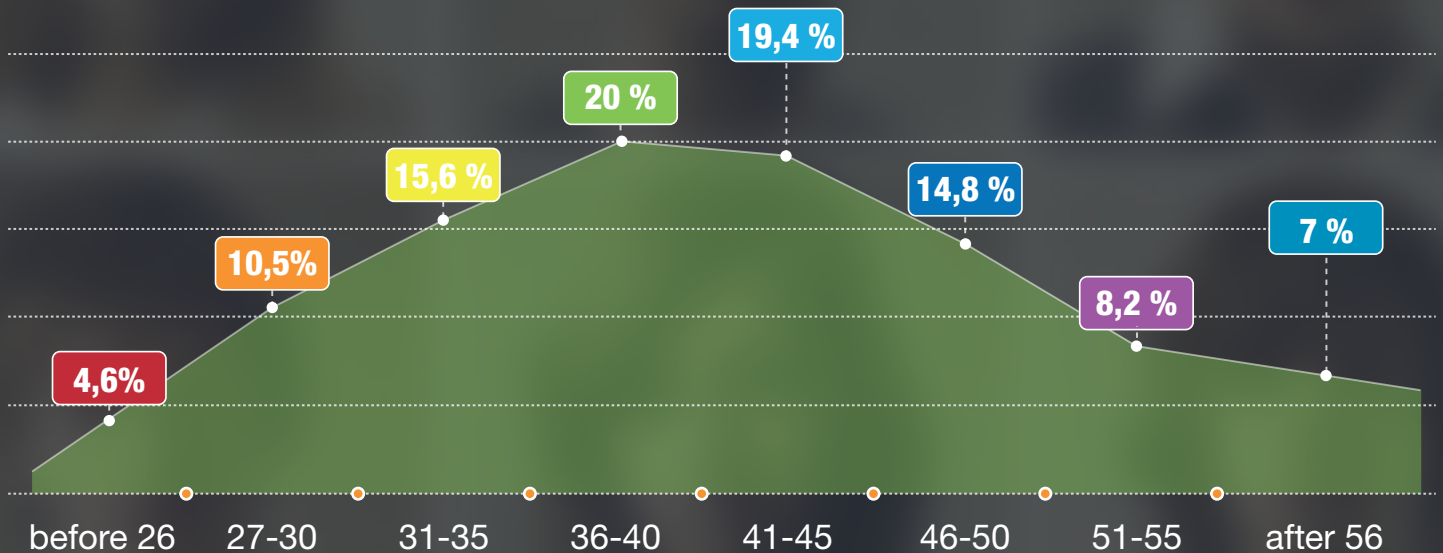
COMPANY DEPARTMENTS

Sales department, customer service department – 21.4%
Accounting/Financial department – 21.1%
Operations department – 14.9%
Management – 10.9%
Procurement department – 7.7%
Manufacturing department – 2.2%
Other – 21.8%

EXAMPLE OF CORPORATE FRAUDSTER

according to the results of investigation by ACFE (2016)

AGE



INVESTIGATION RESULTS

6,3

- bn US Dollars
total amount of damage

23%

of cases

- extent of damage
\$1 bn and more

2 410

- number of
cases

114

- countries
covered

39%

of fraud cases

- revealed owing to
notifications from the employees
and clients

41 788

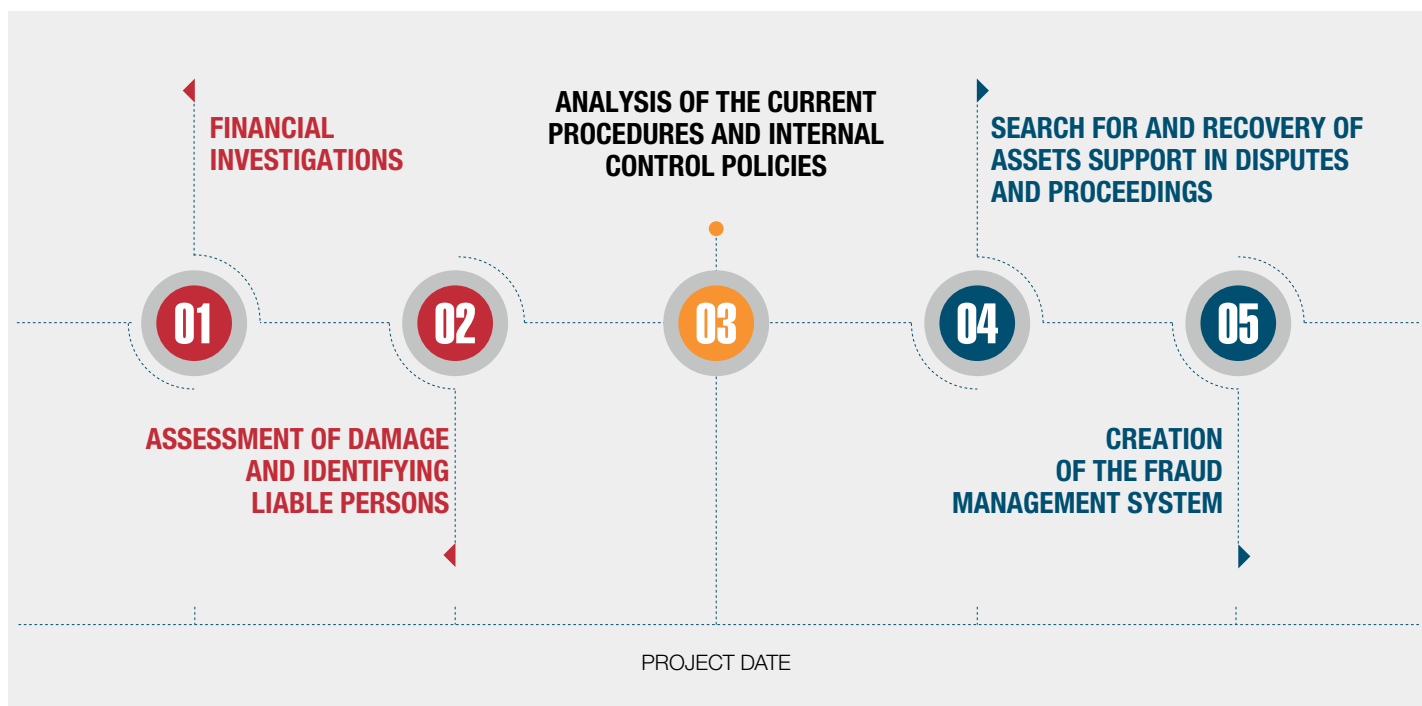
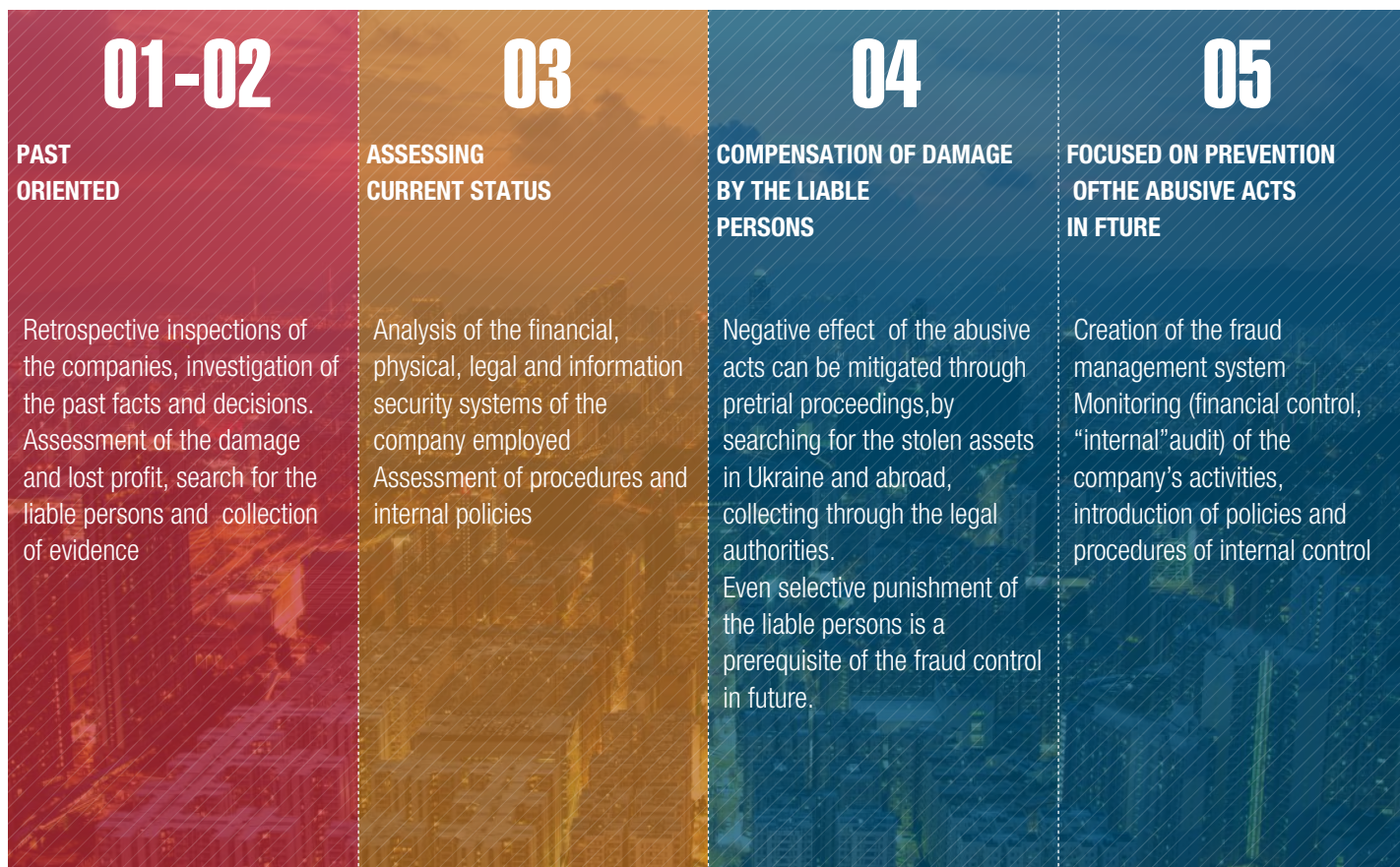
of respondents participating in the
investigation

- experts investigating
cases of fraud

OUR SOLUTIONS

Kreston GCG Forensic Services cover all risk zones associated with the damaged caused to the companies due to fraud, abusive acts, neglect of duty by the employees and other injurious acts - inside the business and in relations with the contractors.

WE DIVIDE OUR SOLUTIONS INTO THE FOLLOWING GROUPS:



EXAMPLE OF THE CLIENT'S SITUATION

Description of the situation

1. The client is an agro-industrial holding specializing in plant growing, oil processing, livestock breeding, etc.

2. Our proposal contains a set of financial investigation procedures, which, based on our experience, are the most relevant for the selected business segments. It is understood that implementation of the proposed procedures will allow us to thoroughly study management models used, identify risk zones and plan further actions for financial investigation.

3. The client needs professional services of:

- verification of effectiveness of the Group's activities for previous periods and assessing financial losses in the following areas: production, procurement, sales;
- investigation of possible fraudulent practices in the Group, revealing facts of appropriation of assets, illegal use of assets, overstatement of costs, understatement of income, corruption, conflicts of interest, etc.;
- assessment of the Group's current policies and internal control systems aimed at restraining and preventing fraudulent operations and negligence on the part of the Group's employees;
- preparation of a plan of anti-fraud measures and prevention of key risks;
- potential recovery of stolen assets, support in disputes and proceedings






EXAMPLE OF OUR SOLUTION FOR THE CLIENT

STAGE 1. FINANCIAL INVESTIGATION


Objectives:

1. Checking effectiveness of the Group's activities for previous periods and assessing financial losses in the following areas: production, procurement, sales.
2. Investigation of possible fraudulent practices in the Group, revealing facts of appropriation of assets, illegal use of assets, overstatement of costs, understatement of income, corruption, conflicts of interest.

Procedures:

Segment	Procedures
 Plant growing	<ol style="list-style-type: none">1. Analysis of production plans and budgets, crop rotation systems, field history logs.2. Analysis of technological maps of key crops cultivation for possible overstatement of production costs, compliance of planned technological operations implementation, used machinery, seeds and CPA with soil state.3. Assessment of status and stage of crops development for compliance of applied technology with standards for use of materials.4. Yield forecast, comparison with declared plans and results of the past years to identify atypical deviations.
 Livestock breeding	<ol style="list-style-type: none">1. Analysis of applied machinery, technologies, premises for livestock management.2. Comparative analysis of standards for writing off feeds and medicines with approved standards for milk yields and weight gain, documentary verification of actual compliance.3. Visual assessment of animals' condition for the purpose of identifying signs of inconsistency between actual level and quality of feeds and veterinary services with the declared standards.
 Inventories	<ol style="list-style-type: none">1. Identification of "long-kept" inventories, for which there was no movement for a long time.2. Verification of sales of inventories, analysis of selling prices, identification of buyers.3. Verification of cases of inventories' writing-off due to loss, theft, damage, etc.4. Verification of availability of estimates and standards for inventories' writing-off, selective compliance verification.
 Sales	<ol style="list-style-type: none">1. Analysis of existing pricing policies, adequacy of approaches to calculating cost of goods and services sold.2. Compilation of list of major buyers, their identification, analysis of agreements.3. Verification of accounts receivable with significant periods of limitation, analysis of reasons for their occurrence.4. Verification of relevancy for writing-off of accounts receivable, analysis of reasons for their occurrence, measures for their recovery.5. Verification of payments on claims: relevancy, amounts

EXAMPLE OF OUR SOLUTION FOR THE CLIENT

Segment	Procedures
 <p>Procurement</p>	<ol style="list-style-type: none"> 1. Compilation of list of main suppliers of goods and materials in the context of segments and divisions, their identification, analysis of agreements. 2. Selective verification of compliance of suppliers' core activity (both of large and small ones) with products purchased from them. 3. Dispersion analysis of prices for main purchased goods, identification of suppliers with highest prices, verification of their relevancy (subject to delivery conditions). 4. Verification of lease agreements: compliance of leased property with the division activities, verification of adequacy of pricing policies. 5. Verification of the purchased services: compliance with the division activities, confirmation of the fact of their provision, adequacy of pricing policies and other terms and conditions, identification of suppliers. 6. Verification of relevancy of advance payments to suppliers.

STAGE 2. ASSESSMENT OF RISK OF FRAUDULENT PRACTICES WITHIN KEY BUSINESS PROCESSES

Objective:

Evaluation of the Group's current policies and internal control systems aimed at restraining and preventing fraudulent operations and negligence on part of the Group's employees.

Procedures:

Segment	Procedures:
 <p>Procurement</p>	<ol style="list-style-type: none"> 1. Identification of main categories of purchased goods and materials and key suppliers. 2. Analysis of structure of departments responsible for purchase of goods and materials, liability distribution systems, internal regulations. 3. Analysis of internal control environment: methodology for determining prices and selection of suppliers, procurement policies, schedules of purchases and payments, documentation of procurement process, etc. 4. Assessment of system of performance indicators and incentive program for employees involved in the procurement system. 5. Analysis of approaches to goods receipt from suppliers (quantity determination, quality assessment, documentation, accounting). 6. Analysis of procurement planning system, its impact on inventory turnover.
 <p>Sales</p>	<ol style="list-style-type: none"> 1. Analysis of structure of departments responsible for sales, liability distribution systems, internal regulations. 2. Analysis of KPI and incentive program. 3. Analysis of commercial policy (rules of interaction with wholesale buyers and networks): format and conditions of cooperation, prices, system of discounts and loyalty programs, payment methods, etc. 4. Analysis of approaches to management of accounts receivable and work with non-payers. 5. Analysis of system of planning, control and sales accounting. 6. Analysis of effectiveness of individual sales managers. 7. Assessment of automation level: CRM system, GPS tracking, etc.

EXAMPLE OF OUR SOLUTION FOR THE CLIENT

Segment	Procedures
 Inventory management and warehousing	<ol style="list-style-type: none">1. Analysis of warehousing structure, management system, staffing, KPI and incentive program.2. Assessment of organization of warehouse storage of inventories (zoning of warehouses, restriction of access to warehouses, etc.).3. Analysis of documentary support and control over receipt and delivery of inventories by warehouses.4. Assessment of management of warehouse balances (requirements planning, maintenance of inventories turnover level).5. Assessment of inventories' writing-off policy due to losses, theft, damage, etc.6. Assessment of policy of conduct, documentation and recording results of inventory checks. Analysis of applied machinery, technologies, premises for livestock management.
 Economic security	<ol style="list-style-type: none">1. Analysis of security operation regulations (including agreements with security firms), among other things, operating instructions for pass entry system, patrol routes, emergency procedures, etc.2. Analysis of provision of security staff with uniforms, communication means, personal protective equipment, etc.3. Assessment of work of pass entry system for people and transport.4. Assessment of perimeter security.5. Assessment of completeness and consistency of documentation maintenance related to security operation (logs, memorandum reports, protocols, etc.).6. Analysis of premises access control systems.7. Assessment of organization and use of video surveillance systems.

EXAMPLE OF OUR SOLUTION FOR THE CLIENT

STAGE 3. DEVELOPMENT OF ANTI-FRAUD PROGRAM

- Preparation of action plan to counter fraudulent practices and to prevent key risks
- Development of internal rules and procedures
- Organization of corporate hotline operation
- Preparation and setting of on-line form for applications from clients, employees and suppliers
- Organization of regular monitoring of activities by external auditor
- Organization of economic security and internal control service operation

STAGE 4. SUPPORT IN DISPUTES AND JUDICIAL PROCEEDING

- Assessment and estimation of damage, lost profits and opportunities.
- Collection of concealed information about parties in dispute
- Assessment of dispute and strategy development.
- Proper collection of evidence for law enforcement agencies and courts
- Conduct of forensic accounting expert examination
- Support in negotiations. Pre-judicial recovery of assets
- Search for assets in different jurisdictions.
- Legal support in Ukraine and abroad. Giving expert evidence



WHO WE ARE

Kreston GCG represents Kreston International in Ukraine, one of the leading international organizations providing audit and advisory services, with more than 20,000 experts in 108 countries.

OUR EXPERTISE:



AUDIT SERVICES

We are proud that **our audit approaches** stand out for their particular **thoroughness**. Nothing will be neglected.

- Audit of financial statements
- Supporting audit services
- Switch to IFRS
- Forensic - financial investigations
- Increase of the financial management effectiveness
- System and process audit
- Annual Report preparation



ASSESSMENT SERVICES

We assess **all types of assets**, beginning from the immovable property, equipment and intangible assets, to business on the whole.

- Assessment of assets
- Assessment of business
- Assessment for the purposes of IFRS



LEGAL SERVICES

Kreston GCG provides a **full range of legal services** with respect to M&A transactions, and any other cross-border projects.

- Corporate and commercial right
- Transaction support (M&As)
- International trade
- Wealth management
- Settlement of disputes
- International taxation and structuring



TAXATION SERVICES

We **identify risks** of the additional charge of taxes, **analyze company's activities** in terms of compliance with the fiscal legislation.

- Transfer pricing
- Tax audit
- Tax planning and structuring
- Resolving tax disputes



ADVISORY SERVICES

Transformation of business in action
We always **implement** our **consulting**.

- Development of strategies and business plans
- Marketing research and consulting
- Increase of the marketing and sales effectiveness
- Recruiting financial experts
- Increase of HR department effectiveness



TRANSACTION SUPPORT SERVICES

We know how to **raise capital** and how to **verify the investment object**.
Our favorite range is \$5-50 mln.

- Assessment and business process modeling
- Financial and Tax Due Diligence
- Restructuring
- Transaction Support

WHY WE?

We have one of the best in Ukraine the practice of financial investigation and development of the fraud management program. Wide experience with projects in different areas, working with clients with an annual income from UAH 100 mln to 10 bn, and coordinated team will guarantee efficiency of our projects.

OUR ACCREDITATIONS

PCAOB, USAID

Accreditation of the Public Company Accounting Oversight Board (PCAOB), USA, and US Agency for International Development (USAID) to implement audit projects.

EBRD

Kreston GCG successfully cooperates with many international financial organizations, including European Bank for Reconstruction and Development (EBRD), European and Asian export credit agencies.

KRESTON INTERNATIONAL, FORUM OF FIRMS (IFAC)

Membership in the Global Audit Network Kreston International, competence of which is confirmed by high level of recognition and trust on the part of creditors, investors, participation in Forum of Firms (IFAC), etc.

ACCA, RICS

Our employees are members of ACCA and RICS, they participate in the qualified programs of these organizations.

IFRS, HBII, GAAP UK/US/ SWISS

More than ten years of experience in Ukraine with projects related to the international audit, transformation and consolidation of the financial statements (IFRS, HBII, GAAP, GAAP UK/US / SWISS).

We are proud that our audit approaches and financial investigation methods stand out for their particular thoroughness.

Nothing will be neglected.

OUR CASES

Examples of the financial investigation and economic safety risk assessment project results

Case No. 1: Alcoholic beverage manufacture holding



The following was revealed when carrying out the analysis and financial investigation:

- damage to the holding resulting from ineffective receivables management, unreasonable accrual of the advance payments to the doubtful suppliers to the amount of UAH 3.8 mln;
- damage from ineffective inventory management to the amount of UAH 4.9 mln;
- overpricing of the overhaul and construction of various buildings to the amount of UAH 1.4 mln (including cost of work and materials), in certain cases overpricing reached 220% of the cost;
- violation of rules of safe access to the storage facilities;
- risk of fraud resulting from inadequate level of cash management automation, low quality of document flow;
- deficiencies of the policy of conflict of interest and separation of duties offering great opportunities for the fraud.

Case No. 2: Public utility



In the course of the financial investigation, abusive acts that have caused damage for the period of 3 years to the amount exceeding UAH 250 mln were revealed, including:

- overstatement of assets and scope of repair and construction works;
- overpricing of the services purchased;
- under-estimation of premises rented out (up to 10–15 times);
- low quality control of consuming combustibles and lubricants, water, electricity;
- unreasonable liquidity and debt management;
- unreasonable sales of equipment and scrap metal

OUR CASES

Examples of the financial investigation and economic safety risk assessment project results

Case No. 3: Grain trading holding



When conducting financial investigation of usage of the credit resources for the period of 3 years a number of fraudulent operations performed by the management that caused damages to the owners were revealed: - withdrawal of cars, equipment, immovable property in favor of the related parties – more than UAH 140 mln; - withdrawal of the credit funds in favor of the non-residents – more than USD 80 mln; - sales of the products to the related parties at the underestimated price that have caused damage to the amount exceeding UAH 1 bn; - transfer of the corporate rights of the subsidiaries in favor of the related parties to the amount exceeding UAH 400 mln – formation of the “technical liquidity” to obtain credits to the amount exceeding credit worthiness of the holding; - creation of the overstated volumes of the pledge grain (involving international surveyor) exceeding real capacities of the holding’s grain elevator.

Case No. 4: Pharmaceutical enterprise



When conducting inventory and analysis of the security systems the following was revealed:

- regular violations of the inventory control, falsification of the inventory results;
- warehouse equipment of poor quality that resulted in regular errors in calculations and weighing;
- manipulations with writing off the stock as production, overstatement of the amount of the commodities and materials written off;
- incorrect operating procedure for the pass system which allows to remove any values in the cars;
- ineffective fire protection system creating a risk of causing damage to the property and employees in case of fire;
- conflicts between manufacturing and financial personnel which resulted in impairing of the overall performance of the company.

OUR CASES

Examples of the financial investigation and economic safety risk assessment project results

Case No. 5: Agricultural group



When conducting the financial investigation withdrawals of funds causing damage to the group investors in the amount of more than UAH 20 mln were revealed, including:

- signing fictitious service provisioning contracts;
- sales of the asset complexes several times at an escalated price at every stage;
- regular provision of the interest-free financial support to the related parties, fraudulent purchase and sale of companies;
- removal of various inventories and writing them off as a provision of the group company's activities;
- lease of unusable land

Case No. 6: Government-owned construction holding



Main results of our investigation:

- Raising debt funds at an increased interest, damaged is UAH 600 mln.
- Unreasonable fund management, damage amounts to UAH 1 bn.
- Defects in manufacturing and financial planning systems have been identified, which have resulted in annual non-production expenses of the holding in the amount of UAH 25-30 mln.
- Manipulations with financial performance of the Holding have been revealed which resulted in overstating of the Holding's financial performance by UAH 100-150 mln annually.
- Instances of purchase by the holding of the fixed assets at the prices exceeding the market prices have been identified which could have resulted in the Holding's losses amounting to around UAH 35 mln.
- Facts of violation of maintaining archive records principles for the construction documentation, facts of using incorrect consumption rates have been determined which resulted in overpricing of the construction and creation of risks of the other fraudulent operations.

OUR CASES

Examples of the financial investigation and economic safety risk assessment project results

Case No. 7: Fraud in procurement



Representative Manager of Ukrainian subsidiary of the international machine-building company, abusing trust, under the legend of "optimization processes", dismissed from the staff of the subsidiary all the employees, registering them as individuals - entrepreneurs. Because of such actions, the parent company had lost the abilities to control commodity-cash flows, assess the actual amount of costs, total volumes of provided services and payroll. Our specialists had identified fraudulent formation of logistics costs in amount of more than UAH 1 million, the volume of other risky operations, which could lead the parent company to negative reputational consequences and/or criminal responsibility, amounted to more than UAH 10 million.

Case No. 8: Losses in sales



The large national producer of beverages and confectionery products which lacked of activities of the internal audit and control, suffered consequences of absence of independent internal control over the sales directorate, the legal department, the security service and the accounting department. The growing fall in the effectiveness of the interaction of these services led to the destruction of effective business processes and the subsequent separation of units in their main activities.

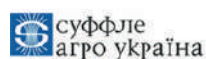
As a result of such lack of control, the head of the sales department paid unreasoned marketing costs in the amount of more than UAH 84 million, lost control over trade equipment worth more than UAH 10 million and paid for the unconfirmed costs of the trade team for amount of more than UAH 5 million.

Security department approved operations with counterparties having a negative legal history worth over UAH 27 million.

The lack of proper interaction between the accounting department and the legal department led to the risk of the preservation of all the goods in the custody of distributors, and to disappearing of the manufacturer's control of actual balances of goods at stocks

OUR CLIENTS

Examples of our clients from the agricultural sector and clients of our audit services



OUR TEAM

Our team has more than **30** experts from Ukraine.

More than **200** experts are from the North America and Western Europe.

We have an expertise in investigating the fraudulent operations performed by the staff, assessment of the operating efficiency, corporate intelligence, support in the course of disputes, criminal and court proceedings, creation of the fraud management system.

KEY PERSONNEL RESPONSIBLE FOR THE FINANCIAL INVESTIGATIONS IN UKRAINE:



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