

# Transparent Business in Russia

Ekaterina Kvaskova

Director for Internal Controls, SCHNEIDER GROUP

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# Transparency Builds Trust



# Corporate Transparency

- Shareholders and investors
- State authorities
- Banks
- Counterparties
- Employees

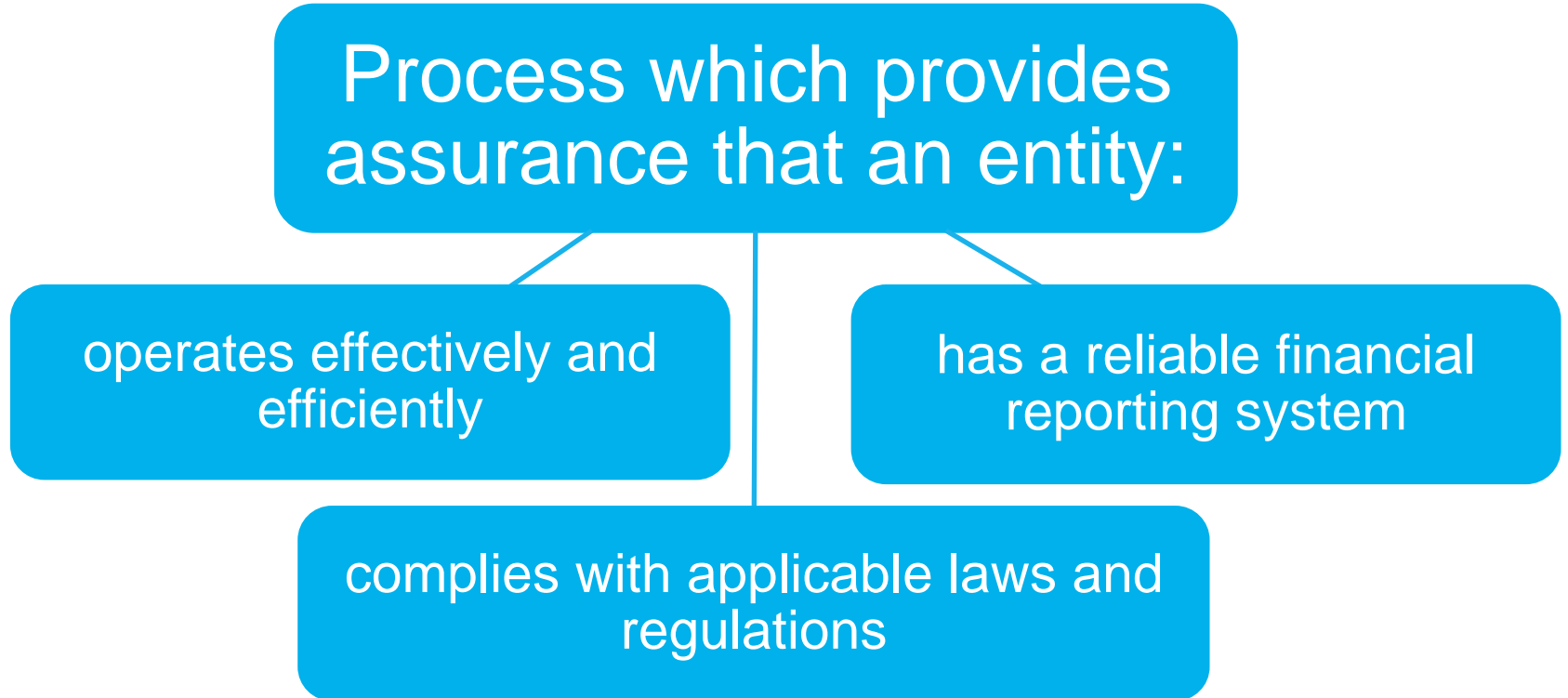
# Ensure Transparency

- Corporate culture
- Corporate policies, standards, and procedures
- Internal Controls and internal reporting
- Internal Audits
- Public reporting (state authorities, official corporate resources)

# Legislation Requirements

- Art. 19 of the Russian Federal Law No.402-FZ "On Accounting"
  - all economic entities must carry out internal control of performed economic activities, and those subject to mandatory audit must also carry out internal control of accounting and preparation of financial statements

# Internal Controls



# Effective Internal Controls



# Internal Controls in Accounting

- Segregation of duties
- Access to information systems and assets
- Authorization of processes
- Application of procedures and policies
- Verification



# Company Policies & Procedures

- Must be clear, specific, and easily understood
- Specify company rules
- Explain their purpose
- State when policy should be applied
- Who it covers
- Method of enforcement
- Describe consequences of non-compliance

# Financial “Red Flags”

- Resignation of the external or internal auditor
- Change in accounting policy
- Special schemes to avoid or increase profits (affiliated companies)
- Large operations at the end of the reporting period
- Payments without contracts and only “strange” invoices
- Complex financial transactions, where the practical meaning is not clear

# Fixed Assets and Stocks Issues

- FA retirements not considered
- Amortization not in line with normal usage
- Inventory taking “upside down”
- Re-evaluation of assets not justified

# Case studies: Internal Audits

## Production company – wallpapers

Background: Confirmation of certain Balance and P&L lines of Russian subsidiary as a part of group audit

### Findings:

- Obligatory audit has not been performed for the last 5 years
- As the company pledged most of its property, identified issues were caused by strict control of bank over all significant expenses of the entity:
  - Current expenses were not written off in time, but accounted as deferred (RUB 9.4 million)
  - Provisions were not created - the company has:
    - bad debts on outstanding advances given (RUB 5.6 million)
    - devaluated stock (RUB 15 million)
    - unused vacations (RUB 1.7 million)

# Case studies: Internal Audits

## Package and logistics company

Background: Foreign company aimed to buy business partially carried in Russia

### Findings:

- Target company operates on the territories of its subcontractors (chemical plants). No special assessment of working places was provided for the company's employees (obligatory for work in harmful conditions)
- Lack of inventory-taking which leads to risks:
  - Misstatement of assets in financial reporting
  - Depreciated / damaged assets
  - Fraud



**Ekaterina Kvaskova**  
Director for Internal Controls  
[KvaskovaE@schneider-group.com](mailto:KvaskovaE@schneider-group.com)

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