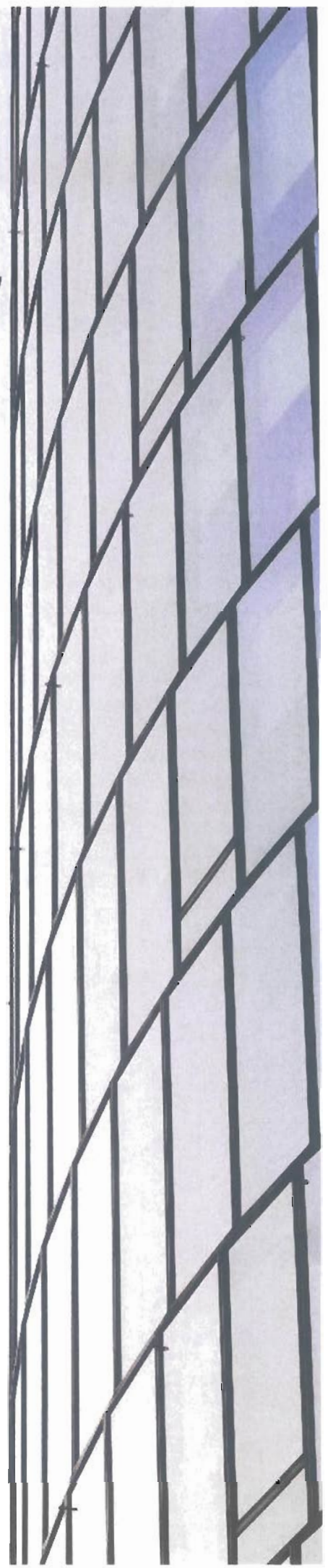




Science and Technology Centre in Ukraine Management Letter

For the year ended 31 December 2018





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Private and confidential

26 April 2019

Dear Mr. Curtis M. Bjelajac and Mr. Anthony Nichol,

We have audited the financial statements of the Science and Technology Center in Ukraine (hereinafter "STCU") as at and for the year ended 31 December 2018.

Our audit procedures are designed primarily to enable us to provide an opinion on the financial statements, and therefore will not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the STCU gained during our work to make comments and suggestions that we hope will be useful to you.

During the performance of our audit, we noted certain matters that are presented for your consideration. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies and are noted in the attached appendix. This management letter also includes the responses by management to our recommendations.

We would like to express our appreciation to the management and employees of the STCU for their cooperation during the audit.

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended solely for the information and use of the management.

Yours sincerely,
KPMG Baltics SIA

Armine Movsisjana
Partner

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Lack of policy for recognising accruals

Observation

During the course of the audit, we have discovered instances when for large procurement contracts, expenses related to procured goods or services where such goods or services were delivered in the reporting year, but invoices received in the subsequent period, were not accrued as at 31 December 2018. For example, we identified that there were no accruals recognised for projects 9700, 9810, P728, P718 and 9905 as of 31 December 2018.

Implications

Accruals are understated in the Statement of Financial Position, and, accordingly, project expenses are understated in the Statement of Revenues and Expenditure as at and for the year ended 31 December 2018. Corresponding adjustments proposed as a result of our audit (not material to the financial statements).

Recommendation

We recommend the STCU to implement a common policy with respect to accruals by establishing procedures for identifying those contracts with suppliers where invoicing period does not correspond to the delivery period. Taking into consideration the specifics of each contract with suppliers, the STCU should carefully assess amount of accruals to be recognised at the end of each reporting period.

Management response

For the purposes of reporting to the funders of projects the use of the accruals concept is not required as they consider the period of the project in its entirety rather than specific chronological reporting periods. For the purposes of the financial statements accruals at the year end should be recognised in the instances quoted above two significant payments for 2018 were made in 2019 as a result of the holiday period and an accrual was required for unbilled work on one project. Attention will be paid to payments around the Christmas holiday period to recognise accruals if and when they arise.

Prepayment recognition

Observation

Upon testing the project expenses for a sample of projects, we identified prepayments on works that were not finished till the end of the financial year. These prepayments were expensed in the Statement of Revenue and Expenditure in 2018. For example, there was a prepayment in amount of - 236 219 USD for project P718 to two suppliers for work to be performed during several years: 2018 - 2020.

Similarly, there was an instance when purchase of equipment was expensed in full at the moment of the invoice receipt from the Institute or Vendors, while the equipment itself was not be delivered until few months later. For example, for project 9905 there was a payment for a laboratory equipment in amount of 6 495 EUR. This payment was recognised as expenses in the Statement of Revenue and Expenditure in 2018, but actual transfer of rewards and risks occurred on 22 January 2019.

Based on inquiry with Finance staff, during 2018 the STCU established a process to recognise advances paid as prepayments in Navision, and at the year-end the STCU staff makes manual adjustments if advances were expensed. However, if advances are expensed during period for which closing period is different to financial year end (i.e. closing period is between January and September), then such entries cannot be adjusted in Navision as at financial year end. Further, based on inquiry with Procurement Officer we discovered that there is a benchmark for year-end adjustment of 10 000 USD.

Implications

While the STCU implemented a process over prepayment cut-off during 2018 following auditor's recommendation of 2017, there are still gaps in the internal process, which result in a misstatement in the Statement of Revenue and Expenditure of the reporting period and audit adjustment proposed (not material to the financial statements), and violate accrual basis of accounting.

Recommendation

We suggest to the STCU to revise introduced control over prepayment recognition e.g. advances paid should be recognised as prepayments in Navision upon cash transfer rather than adjusted during year-end closure. We also recommend holding additional training to administrative and financing staff to ensure understanding of accrual basis principles.

Management response

Whenever possible STCU recognises significant prepayments that relate to purchases that will overlap the year end as prepayments when payment is made. The significant prepayment that was not recognised prior to the year end was for one off payments on a project unlike any previous STCU projects and the payments were not generated from a procurement procedure. Attention will be given to payments made in similar circumstances should they arise.

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