



Science and Technology Centre in Ukraine Management Letter

For the year ended 31 December 2019





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Private and confidential

23 July 2020

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 2019.

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 AS

Armine Movsisjana
Partner

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Accruals recognition

Observation

During the course of the audit, we have discovered instances when for large procurement contracts, both purchase of equipment or receiving a service that overlaps between two financial periods, neither accruals were recognised in the Statement of Financial Position as of 31 December 2019, nor expenses were recognised in the Statement of Revenues and Expenditure in 2019. For example, we identified that there were no accruals recognised for project P718 (Clean Sky) as of 31 December 2019.

Implications

While the STCU implemented an informal process over accrual recognition during 2019 following auditor's recommendation from 2018 audit, there are still gaps in the internal process, which resulted in a misstatement in the Statement of Revenue and Expenditure of the reporting period, as accounting accrual basis was not followed.

Accruals may be understated in the Statement of Financial Position, and accordingly project expenses are understated in the Statement of Revenues and Expenditure.

Recommendation

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

Management response

Partner project p718 is with Clean Sky a joint venture set up by the European Union to implement research projects under Horizon 2020. The project was at the time unique for STCU as it involved two entities participating in the project that were not institutes under the National Academy of Sciences who were to perform their own financial management and purchasing. Therefore STCU does not control payments for these entities. STCU receives funds from Clean Sky and pays them directly to the recipients who report themselves to Clean Sky. These payments are not part of the procurement system and the recipients are not viewed as suppliers.

Therefore the payments in question were not recognised as accruals or prepayments at the time of payment as they were not part of the procurement process.

STCU will identify this project and subsequent similar projects as being unique in this respect and record payments as accruals or prepayments as each situation dictates.

Prepayment recognition

Upon testing the project expenses for a sample of projects, we identified certain prepayments on works that were not finished till the end of the financial year. These prepayments were made during 2018 and expensed in the Statement of Revenue and Expenditure in 2019. For example, there was a prepayment in amount of 231 763 USD for project P718 to two suppliers for work to be performed during several years, and as per terms and conditions of the agreement the prepayment should have offset invoices due only when 90% of the work is invoiced, which did not occur during 2019.

Implications

While the STCU implemented a process over prepayment recognition during 2018 following auditor's recommendation from the audit 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, as a result of accounting accrual basis not being followed.

Prepayments and costs/revenue may be misstated in the financial statements.

Recommendation

We suggest to the STCU to revise introduced control over prepayment recognition e.g. closely follow terms and conditions of the contracts with suppliers to identify the moment when the prepayment can be contractually offset against the subsequent received invoices.

Management response

See earlier point under accruals recognition this is exactly the same scenario.

Access rights to bank accounts and payment authorisation

Observation

Upon performing audit procedures, we obtained a letter from Access Bank, which states that ex-chief accountant, Maryna Dziubynska, has access rights to the online banking system and has first signatory rights. Additionally, during internal process evaluation we discovered that there is lack of four-eye principles for payment initiation and authorisation through Bank of Georgia's online banking system. During interview with Larissa Maiboroda (project accountant) and Anastasia Kulenko (deputy of chief financial officer) we discovered that both ladies could initiate and authorise payments solely using the same calculator.

Implications

Lack of established and strong process relating to outgoing payments review might lead to fraudulent activities exercised by the staff.

Recommendation

We suggest to the STCU to amend access rights to Access Bank's online banking system. Additionally, we suggest revising the process for payment initiate and authorisation through Bank of Georgia's online banking system

Management response

The procedures for changing signatories at Access Bank are very involved and require the presence in Azerbaijan of all the signatories. Management are aware of this issue and the need to formalise these arrangements which will be done when it is possible for all three signatories to be in Azerbaijan at the same time. In the meantime as the bank requires dual signatures for any transaction management does not consider there to be a significant risk attached to this until we are able to update the records.

The use of one signatory is in line with Bank of Georgia's online banking system. Management are satisfied that together with other controls, which include the bank accounts in Georgia being operated on an imprest basis, there is sufficient authorisation control over the bank accounts. Management will review the signatory policy for Bank of Georgia and discuss with the bank the possibility of changing the number of signatories on transactions.

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