



Science and Technology Centre in Ukraine Management Letter

For the year ended 31 December 2017





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Private and confidential

25 May 2018

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 2017.

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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Overhead periodisation

Observation

During the course of the audit, we have discovered instances when for individual project overheads were recognised in the Statement of Revenues and Expenditure in the incorrect period. For example, we identified that there were no overhead expenses recognised for projects P613, P620, P626, P653, P688 for some of the quarters in 2017. For projects P615, 6098, P004R1, P676 overhead expenses were recognised in the incorrect period.

Implications

Overheads liabilities may be understated or overstated in the Statement of Revenues and Expenditure for a particular reporting period.

Recommendation

We suggest to the STCU to introduce a quarterly control over reconciliation of overheads expenses including classification between overheads and retainage to the individual project budgets to ensure completeness and accuracy of expenses to be recognised in the Statement of Revenues and Expenditure and recorded liability at year end in the Statement of Financial Position.

Management response

Agreed STCU will include an additional procedure in the month end and year end closing procedures for projects to check that the overheads have been charged for the period and the correct amount has been allocated.

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 2017. For example, there was a prepayment in amount of 7 564 USD for project P693 for work to be performed in 2018.

Similarly, purchases of equipment are expensed in full at the moment of the invoice receipt from the Institute or Vendors, while the equipment itself is not be delivered until few months later. For example, for project 9902 there was a prepayment for a microscope in amount of 19 550 EUR. This prepayment was recognised as expenses in the Statement of Revenue and Expenditure in 2017, but actual transfer of rewards and risks occurred on 7 March 2018.

Implications

The above approach to record prepayments related to projects and administrative and supplemental expenses, when all risks and rewards have not yet passed to the recipient, results in a misstatement in in the Statement of Revenue and Expenditure of the reporting period and does not follow accounting accrual basis.

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

Recommendation

We suggest to the STCU to introduce a control over expenses recognised at year end for both equipment purchases and services received, and, if necessary, develop functionality within accounting system allowing accurate prepayment recognition. Special attention should be dedicated to payments made during the last financial quarter and additional training to administrative and finance staff should be provided to ensure understanding of accrual basis principles.

Management response

This situation has arisen due a number of large projects that have involved the purchase of specialised equipment in large quantities and for several countries. These procurements have involved long lead times and some advance payments to suppliers are required in a different financial year from the delivery of the goods.

STCU will change the handling of advance payments to suppliers where the delivery of goods and services is known to be a significant time in the future and treat these as prepayments until the goods or services are delivered and the final payment is made at which time the prepayment will be reversed. We will look at ways to include this in our accounting software, as is currently done for administrative expense prepayments (such as insurance) which are reversed on a strict time schedule, however for the project prepayments the time schedule for reversal is not known at the outset.

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