

Letter to Those charged with governance (Governing Board) and Management

"Science & Technology Center in Ukraine"

Audit of the financial statements for the year ended 31 December 2021

Introduction

Dear Sirs,

We have audited the financial statements of the "Science & Technology Center in Ukraine" (hereinafter - the "Organization" or "STCU"), which includes the Statement of financial position as at 31 December 2021, Statement of profit or loss and other comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended and notes to the financial statements.

During the planning and conducting of the audit of the financial statements, we have examined the internal control structure, organized by the Organization, regarding the accounting and reporting in order to determine our audit procedures.

We acknowledge that we have complied with the relevant ethical requirements for independence, and inform you that there are no relationships and other issues that could reasonably be considered as those affecting our independence.

In accordance with common practice, our letter contains some observations and recommendations regarding accounting and internal control systems and that have attracted our attention during the audit. The facts we refer to in this letter may not fully reflect all significant misstatements and all possible improvements.

This letter is prepared solely for the purpose of informing the Organization's Governing Board and management and may not be used for purposes other than for internal use.

We will be grateful for your comments on the issues described in this letter and we are ready to discuss them with you.

Observations and recommendations

- Impairment allowance for accounts receivable

Observation

During performance of the procedures, auditors have identified that the Organization recognizes accounts receivable under the project P554B in the Balance Sheet as at 31 December 2021, which is currently suspended. This debt amounts to USD 175,700 thousand. The Client classifies this debt as overdue within 1 year. The auditors were unable to receive sufficient evidence that these receivables will be repaid in full amount.

Risks

The carrying amount of accounts receivable in the financial statements as at 31 December 2021 may be overstated.

Recommendations

We recommend the Organization to accrue impairment allowance for these accounts receivable.

Organization's comments

This project has been suspended for some time and the project may be resumed in the future or may be terminated, management has no firm information on the Partner's future intentions. The Partner we have worked with in the past and may resume the project. Until the project is terminated STCU should maintain the balances in our accounting records. STCU agrees with the recommendation that there should be a provision made for impairment against this account receivable. We note that due to the accounting for projects the effect on the income statement will be approximately \$ 12.

- Periodization of the project-related costs (cutoff)

Observation

The auditors have identified that the Organization recognized costs related to projects in the incorrect period in the financial statements for 2021, namely:

- *Project 9700*: expenses for consulting services in the amount of USD 183,276 thousand (counterparty Facilia) related to the period of October 2020 – November 2021, but they were recognized in full amount in December 2021;
- *Project P753*: expenses for business travels in the amount of USD 24,397 thousand (Oleksandr Doroshkevych) related to the period of February – December 2020, but they were recognized in full amount in January 2021.

Risks

Expenses in the Organization's financial statements may be misstated.

Recommendations

We recommend the Organization to review the Organization's approaches to the recognition of expenses, since income/expenses should be recognized on the basis of the accrual method (when relevant economic events occur despite of the time of receipt or withdrawal of funds).

Organization's comments

These two payments should have been recognized as accruals in the 2020 Financial Statements. The payment on P753 was an oversight. The invoice for payment on 9700 was not received until November 2021 after the financial statements had been prepared. The amount of the \$ 183,276 that applies to 2020 if the services had been supplied on a straight-line basis would have been around \$ 30,000, however the services were not on a straight-line basis and the amount relating to 2020 would have been considerably less than \$ 30,000. Verbal enquiry was made of Facilia as to the volume of work done in 2020 and not invoiced at December, we were informed that it was minimal and no accrual was raised.

STCU will endeavour to ensure that accruals are identified and raised when closing the year end.

- **Formalized accounting policy prepared in accordance with IFRS**

Observation

While performing audit procedures we identified, that the Organization does not have a formalized accounting policy prepared in accordance with IFRS.

Risks

Availability of formalized accounting policy is one of the key elements of the Organization's control environment, where accounting principles and approaches to the preparation of financial statements in accordance with IFRS should be described. Absence of such a document may be evidence of insufficient internal controls of the Organization in general.

Recommendations

We recommend the Organization to develop a formalized accounting policy prepared in accordance with IFRS.

Organization's comments

STCU have relied on internal knowledge and memory of the accounting policies used and only recorded this in the annual financial statements. We agree with this recommendation and will work on preparing such a policy document to complement the Statute and Financial regulations.

Acknowledgment

We are very grateful to the management of the Organization, which assisted us in conducting our audit. The quality of our audit largely depended on the degree of mutual understanding that we reached during the audit. We are grateful to all the staff involved for their assistance in the organization of the audit, their readiness and promptness in the provision of the necessary information. We are looking forward to further effective cooperation.

Restrictions on use

This letter is intended solely to inform the management of the "Science & Technology Center in Ukraine" and for the use by the Governing Board and management and other persons within the Organization and may not be used for any other purposes.

This information may not be referenced or publicly mentioned without our prior written consent.

On behalf of "Crowe Erfolg Ukraine", LLC

Artem Vorobienko
Key Audit Partner

14 December 2022

