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Auditor's Letter to the Management

On the audit of accounts
of
**Management and Resources Development
Initiative (MRDI)**
for the year ended 30 June 2012



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TABLE OF CONTENTS

Section	Contents	Page #
1.	Transmittal Letter	i
2.	About the Organization	1
3.	Objectives of the audit	1
4.	Scope of the audit	1
5.	Audit methodologies	2
6.	Summary of audit observations and related recommendations	4
7.	Details of current period's Audit Findings, Effects and Recommendations and follow up of last year findings	5

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The Board of Directors
Management and Resources Development Initiative (MRDI)
8/19, Sir Syed Ahmed Road (3rd Floor), Block-A
Mohammadpur
Dhaka- 1207

13 August 2012

Dear Sir,

Auditor's Letter to the Management of Management and Resources Development Initiative (MRDI) for the year ended 30 June 2012

We have pleasure in informing you that we have completed the audit of the Financial Statements of Management and Resources Development Initiative (MRDI) for the year ended 30 June 2012. We now attach hereto a Memorandum containing the major issues that came to our notice during the course of our audit.

We have conducted the audit in accordance Bangladesh Standards on Auditing. In planning and performing the audit we have reviewed and assessed the internal control environment of the organization with a view to establishing a basis for placing reliance on such control system of the entity and also to determining the scope and extent of our work in connection with the said audit.

The accompanying Memorandum contains our observations with respect to financial, general and administrative matters and internal control, which came to our notice during the course of our audit. The review of internal controls as well as tests of compliance with applicable policies, procedures, rules and regulations revealed certain instances of errors and omissions, weaknesses and non-compliance with the laws and regulations. These are reported under the caption "Details of Audit Findings". Each finding contains four parts, viz.-

- i. Fact (What actually happened);
- ii. Effect (What harm was caused for not complying with the standard practice);
- iii. Recommendation (That corrects the cause and the condition as applicable); and
- iv. Management Response (Comments of the Management on the finding).

These matters have been offered as our suggestions for consideration of the Management of MRDI as part of the on-going process of modification and improvement of internal controls and of monitoring compliance with financial and administrative practices and procedures as laid down in applicable policies, procedures, rules and regulations.

Finally, we take this opportunity to express our appreciation for the courtesy and cooperation extended to our representatives during the course of our audit. We would be pleased to discuss further our suggestions and comments and assist in their implementation, if they are considered appropriate.

Thanking you,

Yours faithfully,



Mohammad Nurun Nabi, FCA
Partner

Management and Resources Development Initiative (MRDI)

Auditor's Letter to the Management on the Audit of Accounts for the year ended 30 June 2012

1. About the Organization

Management and Resources Development Initiative (MRDI) a multidisciplinary Not for Profit, Non-Government Organization engaged to a wide spectrum of social development activities and seeks to render services to national and international organizations, both in the public and the private sector. MRDI is registered with the office of the Registrar of the Joint Stock Companies & Firms, Government of the People's Republic of Bangladesh under Section 28 of the Companies Act, 1994 having incorporation # C-544 (57)/2003 dated May 13, 2003 as a Company limited by guarantee. It is also registered with the NGO affairs Bureau having registration # 1962 dated 21-09-2004 under the Foreign Donations Regulation Ordinance 1978 which was renewed on November 19, 2009.

2. Objectives of the Audit

The objectives of the audit may be divided into two ways:

- (i) Primary; and
- (ii) Secondary

The primary objective of the audit is to enable the auditors to form and express an independent and unbiased opinion on the financial statements about whether the financial statements reflect the true and fair view of the financial position as well as of the operational results of the entity in accordance with the Bangladesh Accounting Standards.

The primary objective also involves verifying the accuracy and dependability of data being processed through the accounting system prior to conversion into the information contained in the financial statements.

The secondary objectives of the audit are to:

- arrive at an opinion as to whether or not the financial statements under audit comply with certain requirements as mandated according to the policies, rules and regularities relating to the operations of the entity; and
- provide assistance to the management in improving financial as well as administrative controls within the entity for prevention of future fraud and errors, etc.

3. Scope of the Audit

We conducted our audit in accordance with the Bangladesh Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing the audit of the financial statements, we have reviewed and assessed the internal control environment of Management and Resources Development Initiative (MRDI) in order to determine our extent of work and auditing procedures for the purpose of expressing an opinion on the financial statements and not for providing assurance on the internal control structure.

The management of MRDI is responsible for the compliance of applicable rules, procedures and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we have performed the tests of compliance with applicable procedures, detailed examination of the accounting records, books, vouchers, registers and other relevant documents and such other auditing procedures as we considered necessary, deemed appropriate and found feasible under individual circumstances.

It is pertinent to mention here that our audit procedures were primarily designed to enable us to form an opinion on the financial statements. Therefore, it may not reveal all the weaknesses and irregularities, if any, which might be revealed by a special and thorough investigation.

The scope of our work, interalia, included the conduct of the following:

- i. Review and examination of the financial statements prepared and presented to us by the management of MRDI;
- ii. Discussion regarding activities of client and examination of the receipts of funds, the disbursement and expenditure process, monitoring the utilization thereof and ensure that all processes is established, have been followed;
- iii. Review the documentation relating to the procurement and supply processes, (purchases orders, invoices raised by the suppliers, agreements with the suppliers, etc.);
- iv. Test of compliance with the in-house policies, rules and procedures and government laws and regulations;
- v. Review of books, records and accounts to assess whether they were prepared and maintained using a double entry book keeping system;
- vi. Examination of all related bank accounts and reconciliation statements where applicable; and
- vii. Verification of the physical stock and assess the internal control structure and environment, etc.

4. Audit Methodologies

The methodology applied in relation to the audit of accounts of MRDI for the year ended 30 June 2012 included the following:

- i. Entrance meeting with the management of the auditee organization;
- ii. Reviewing and assessing the accounting system;
- iii. Reviewing and assessing the internal control structure and environment;

- iv. Audit planning, determination of scope and extent of audit work, preparation of work program and selection of skilled and competent audit team;
- v. Supervision and review of audit work by senior audit personnel;
- vi. Time to time discussion with the management regarding audit observations and disposal thereof;
- vii. Meeting with the management for preliminary discussion on the audit findings;
- viii. Review of audit work by engagement partner, review partner and audit manager;
- ix. Evaluation of audit evidences and observations;
- x. Documentation of audit evidences;
- xi. Preparation and submission of draft report;
- xii. Discussion meeting with the management on the draft report;
- xiii. Finalization of report.

5.00 SUMMARY OF AUDIT OBSERVATIONS AND RELATED RECOMMENDATIONS

Finding #	Observations	Recommendations
2.	Correction pen was used	Management should be concentrated in this regard and prohibited such practice in order to avoid any scope of deceptive alteration of accounting records.
4	Some assets are being used despite expiry of economic life	Management and policy maker of the organization should make proper estimation regarding depreciation charged. After fully depreciated, assets should be revalued by a professional evaluator for the subsequent utilization.

6. Results obtained from audit

6.1 Issues regarding accounting system and compliances of established policies and procedures and applicable laws, rules and regulations.

This section covers significant audit findings along with their probable effects and recommendations thereon and MRDI's management responses to those findings and recommendations.

6.1.01. Accounting System

To ensure proper records of all financial transactions and to prepare various management and financial reports, Finance and Accounts Department is responsible. To prepare accurate financial statements, MRDI management maintains general bank book, control Ledger, separate cash and ledger books for each project. All business and accounting vouchers are checked and authorized by the Manager (Finance) and approved by the Executive Director and recorded manually in the books of accounts. Daily cash receipts and payments report is approved by Executive Director.

Comments

The overall accounting system of MRDI is found satisfactory without the following mentioned exceptions:

- (i) MRDI maintains its books of accounts manually; as a result there remain the possibility of clerical mistakes and misstatements. Moreover, periodic reports can not be produced promptly whenever management will feel necessary for decision making purpose.
- (ii) MRDI only maintains control ledgers for all heads of accounts, but does not maintain any subsidiary ledger. As a result, all the transactions remain scattered and it is difficult to confirm the aggregated amount of the control ledgers at a glance.

Recommendations

MRDI management may maintain their accounts in software system for the cost effectiveness of the organization as well as to produce periodic reports for the prompt decision making of management whenever they feel flexible. For the existing system, subsidiary ledgers should be maintained to ensure proper control regarding accounting system.

Current Status

Action partially taken

6.1.02. Internal Control Systems

In assessing the entity's internal control environment, we have focused on some major key areas of operation. We observed that for any kind of procurement, the concerned section of MRDI places a requisition to the finance department. If the proposal agrees with budget then finance department send it to Executive Director for approval. After approval from concern authority, expenditures are incurred and related bill/ vouchers are sent to the finance department and

payment are made. Accounts department collects the related bill/vouchers and prepares the accounting vouchers and records manually in the books of accounts. For other expenditure, requisition letter is sent to the procurement department and then after reviewing by concerned authority, purchases are made by the said department and bill/ vouchers are sent to the finance department and payments are made.

Moreover, for ensuring proper functioning of human resources, all kinds of controlling registers i.e. attendance register, movement register etc, are maintained by the management.

At the end of each day, after making all transactions, the accounts officer counts the cash physically and records on a cash reconciliation statement and submits to the Head of Finance. The cash book is totaled at the end of each month. Cash book is signed by the Executive Director and Head of Finance.

Comments

The organization seems to have a sound internal control system on papers and documents to be maintained for providing relevant accounting information. All assets are acquired by the name of the organization and are duly protected from loss or embezzlement.

Recommendations

The management of MRDI should always be concerned to establish and maintain a more effective internal control system that will ensure more effective conduct of its activities.

Current Status

Action partially taken

6.1.03. Fund Management System

MRDI receives its funds from donors as per agreement and from other sources viz. local contribution/donation, member's subscription, service charges from different projects, consultancy and training fees etc. Fund receipts from foreign sources are deposited in Mother Bank Account and then transferred to the separate bank account maintained for each project. MRDI receives funds either by bank transfer or cheque/demand draft. The Board of Directors of the organization is the custodian of all funds.

Comments

The overall fund management system of MRDI was found satisfactory and in accordance with the policies and procedures but in few cases we observed the following weaknesses:

- In MRDI's core account, fund received for different projects, against which no sub ledgers were maintained. For this reason the amounts remain scattered and it becomes difficult to identify total flow of fund.

Recommendations

The management should take required initiatives to maintain subsidiary ledgers to establish proper control over fund management system.

Current Status

Action taken

6.1.04. Fixed Assets management System

Fixed assets are procured at the name of the organization and the Executive director on behalf of the Board of Directors is acting as the Chief Custodian of all assets. All fixed assets are recorded in the Fixed Asset Register with required information and an ID number for each individual item is given. Fixed assets which are in poor condition or no longer required for use is disposed of either by sale or scrapping with the approval of the Board.

Comments

Fixed assets fully depreciated are utilized without revaluation.

Recommendations

The Management of the organization should make proper estimation regarding depreciation changed and after reasonable interval, the assets should be physically verified and revalued for its reuse after fully depreciated.

Details of audit findings

Finding # 01

Correction pen was used

Fact

It was observed that in some cases correction pen was used in rectification of accounting records.

Effect

Such practice might lead deceptive alteration of accounting records and divergence from best practice.

Recommendation

Management should be concentrated in this regard and prohibited such practice in order to avoid any scope of deceptive alteration of accounting records.

Management Response

We used it in the ledger book, we will be careful on using fluids in the future

Finding # 02

Some assets are being used despite expiry of economic life

Fact

It was observed that item of fixed assets having been used despite expiry of economic life of those assets. It was also observed that substantial useful life of those assets remained to be used. However, appropriate control was in place through keeping book value of each item of those assets.

Effect

It indicates wrong estimation regarding useful life of assets

Recommendation

Management and policy maker of the organization should make proper estimation regarding depreciation charged. After fully depreciated, assets should be revalued by a professional evaluator for the subsequent utilization.

Management Response

It is an issue of longevity of the assets and other uncontrollable circumstances. This issue will be discussed in our next board meeting.

Status of last year audit findings

Sl.	Findings	Action taken or not
1	Fixed assets register was not maintained with required information	Action taken
2	Outstanding loan is unadjusted since long time	Action taken
3	Inappropriate classification of expenses	Action taken
4	Insufficient books of accounts	Action not taken
5	Excess VAT was paid against office rent	Action taken