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Howladar Yunus & Co.

Management and Resources Development Initiative
Management Letter on the Audit of the Financial Statements
for the year ended June 30, 2017

Chartered Accountants

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**Management and Resources Development Initiative (MRDI)
Management Letter on the Audit of the Financial Statements
for the year ended June 30, 2017**

Submitted by-
Howladar Yunus & Co.
Chartered Accountants

November 10, 2017



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Transmittal Letter

HYC/MF/Audit/MRDI/2017/057

November 10, 2017

Executive Director

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Dear Sir,

Management Letter on the financial audit of Management and Resources Development Initiative (MRDI)

We have audited the financial statements of Management and Resources Development Initiative (MRDI) for the Period from July 01, 2016 to June 30, 2017 and are pleased to submit herewith our management letter thereon.

We conducted our audit in accordance with Bangladesh Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. It is pertinent to mention here that our audit procedures are designed primarily to enable us to form an opinion upon the truth and fairness of the accounts. Accordingly, we have carried out our tests and evaluations of your systems only to the extent necessary to enable us to arrive at our opinion. Therefore, they do not necessarily uncover all the weaknesses in the system of internal controls and accounting procedures, which a more exhaustive special review of the system might do.

We have the pleasure in submitting here with our letter to the management in respect of the said audit. The management letter contains details of findings during the audit.

The review of the financial statements and internal controls as well as test of compliance with applicable rules and regulations disclosed certain instances of internal control weaknesses and non-compliance or lapses in compliances of rules, regulation, policies and procedures. These weaknesses and non-compliance have no material effect on the information reported in the financial statements and accordingly we did

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not modify our opinion thereon. All these reported in the attached memorandum under the head "Observation" with four sections:

We have divided each point contained in this report as:

- I. Fact;
- II. Effect;
- III. Management Response;
- IV. Recommendation.

The response received from the management of MRDI, have been incorporated under the heading "Management Response" of each our findings without change or editing. Our objective is to use our knowledge of the organization gained during our audit work to make useful comments and suggestions for you to consider. However, you will appreciate that our routine audit work is designed to enable us to form an opinion on the financial statements of the organization and it should not be relied upon to disclose all irregularities that may exist or to disclose errors that are not material in relation to those financial statements.

We take this opportunity of expressing our thanks to the management and staff of your organization for the kind co-operation they have extended to us during the course of our audit.

Please do not hesitate to contact us should you require further clarification regarding any of the matters discussed in this report.

Yours faithfully,


Chartered Accountant

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1 The purpose of this letter

This management letter is submitted to Management and Resources Development Initiative (MRDI) summarizes the significant issues and conclusions from our audit for the year ended June 30, 2017 together with our comments on relevant issues found during the course of our audit.

Audit matters of governance interest are those that arise from the audit of financial statements and in the opinion of the audit team, are both important and relevant to the management and those charged with governance with regard to overseeing the financial reporting and disclosure process. Audit matters of governance interest include only those matters that have come to the attention of the audit team as a result of the performance of the audit.

2 Scope of services

Howladar Yunus & Co., Chartered Accountants was appointed to audit the balance sheet of Management and Resources Development Initiative (MRDI) as of June 30, 2017 and Statement of Income and Expenditure, Statement of Receipts and Payments together with the notes forming part thereof for the year then ended. Our audit was conducted in accordance with the Bangladesh Standards on Auditing (BSAs) as applicable in Bangladesh. Our engagement to conduct the audit was subject to the satisfactory completion of a background check on the organization, the organization's key decision makers and other key personnel. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant judgments and estimates made by management, as well as evaluating the overall financial statement presentation.

An audit includes obtaining an understanding of internal controls sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on, or to identify significant deficiencies in internal control. However, we are responsible for communicating to MRDI any significant deficiencies or material weaknesses in internal controls over financial reporting that come to our attention during the course of our engagement.



When conducting an audit on a test basis, BSAs require the auditor to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatements, whether caused by error or fraud. An audit is not a guarantee of the accuracy of the unconsolidated financial statements and is subject to the inherent risk that errors, fraud, or illegal acts, if they exist, might not be detected. Accordingly, a material misstatement may remain undetected. Further, an audit is not a special engagement designed to detect errors or fraud that is immaterial to the financial statements.

3 Our Methodology

3.1 Audit Methodology

Audit methodology for the assignment is based on our past experience of similar assignments.

3.2 Auditing to International Standards

Howladar Yunus & Co., Chartered Accountants follows for all statutory, management and financial audit assignments the internationally recognized and defined audit approach of Grant Thornton International (GTI) worldwide committed to the highest levels of quality and excellence through conduct of audit applying the latest audit techniques, quality control procedures and following the recommended and accepted ISAs as well as the auditing procedures and guidelines provided by the World Audit Guideline Manual of GTI. Periodical review of the audit work carried out by our firm is checked for compliance with the ISAs by the quality control inspection committee of GTI.

3.3 Communication with Management & those Charged with Governance

During the course of audit, reports are issued to the management of the Organization in order to keep them acquainted with the status of different components of the financial statements covered and the work yet to be carried out on the remaining components along with the problems being faced in connection with the smooth conduct of the audit. If our audit procedures identify a fraud or situation that indicates that a fraud may exist, we shall also communicate these matters as soon as practicable to the appropriate level of management.



3.4 Management Letter

During our audit, we have reviewed the accounting system and procedures operated by MRDI. We attach with this letter, matters which we consider should be brought to your attention following our audit of the financial statements.

We would point out that the matters dealt within this letter came to our notice during the conduct of our normal audit procedure which is designed primarily for the purpose of expressing our opinion on the financial statements of MRDI. In consequence, our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcations or other irregularities or to include all possible improvements in internal control.

4 Observations

Finding 01:

MRDI has yet to formulate any policy regarding the Gaon Swapna fund management

Fact:

MRDI has yet to formulate any policy regarding the Gaon Swapna fund management and the fund is not registered with any authorities; rather it is a part of MRDI. Profit generated under this project is directly credited to the fund instead of credited to the income statement of MRDI.

Effect:

This might lead to irregularities in management and maintaining Gaon Swapna Fund.

Management Response:

Gaon Swapna fund is meant for the capacity building of the beneficiaries under the 4 (four) Govt. registered women association in Bastpur, Jessore and Bonlaodob, Kailashgonj & Dhangmari in the Sundarbans. Poor and marginalized women are the members of the association. Under the umbrella of Gaon Swapna, MRDI is aiming to showcase and sell the hand made products of women living in the mentioned rural area to the people living at urban area and abroad and generate income for their better life and livelihood. MRDI is only the temporary custodian of the fund as they don't have adequate knowledge on fund management. In the process of fund



management, they already opened separate bank account and trying to maintain their receipts and payments. MRDI is providing support in maintaining their documents. When MRDI feels they have gained adequate knowledge on fund management and maintaining proper books of account, MRDI will hand over the responsibility to them. So MRDI authority think that no separate registration is required against the fund of the above mentioned registered associations. ^

To ensure the transparency of the fund operation a separate set of books of account along with a separate bank account have been maintained by MRDI which is brought under the external audit. For maintaining the transaction the MRDI policy is followed.

Recommendation:

MRDI should immediately formulate policy for Gaon Swapno fund.

Findings 02:

No Insurance for carrying cash and fixed asset.

Fact:

As per Financial and Administrative Manual, the clauses 9.6 and 14.7, "MRDI should arrange for insurance to cover the risk of carrying cash" and "All fixed assets MRDI must be adequately covered by insurance policies from a reputable Bangladeshi Insurance Company" respectively. On verification we observe that there was no insurance coverage for these.

Effect:

Loss cannot be recovered, if any accidental events occur.

Management Response:

MRDI keeps a small amount in cash and very careful regarding the security of Cash and fixed assets. Considering the volume of cash in hand, nature & quantity of fixed assets and fixed assets management; insurance coverage is not financially and technically viable for the organization.

Recommendation:

MRDI should take insurance coverage for cash in transit and fixed asset.



Findings 03:

There is no existence of internal audit department.

Fact:

As per Financial and Administrative Manual, clause no. 16.3, "The organization should introduce internal audit to ensure best practice, continuous monitoring and compliance." The organization has yet to establish internal audit department. As a result, serious fraud and non-compliance of rules and regulations might be incurred due to lack of internal control system.

Effect:

This might raise the risk of lack of internal control.

Management Response:

MRDI has a strong internal control system and financial monitoring arrangement. Also its volume of financial transaction all over the year is not huge. Only 3 personnel work in its finance section. Considering the small size of staff and volume of transaction and financial monitoring system, separate internal audit department is not financially viable to establish.

Recommendation:

MRDI should introduce internal audit department in the organization so that they can detect and prevent any fraud and non-compliance committed by employees of the organization.

Findings 04:

Liability remains unadjusted since long.

Fact:

On our verification we observe that outstanding liabilities have not been adjusted since long. Details are as follows:

S.I.	Particulars	Project	Amount	Liability Creation Date
1	Confidence Refrigeration	MRDI Core	66,000	30-Jun-14
2	Hasibur	Gaon Swapna	50,715	30-Jun-15



	Rahman			
3	Idea printers	MRDI Core (Annual Report 2013-14)	45,750	30-Jun-15
4	Sharier Khan	Unicef contract	40,000	30-Jun-15
5	Transparent	MRDI Core (Contribution To MCAP)	52,500	30-Jun-15
Total			324,222	

Effect:

Lack of control on the part of liability creation.

Management Response:

MRDI Management will place the issue before the board for taking decision.

Recommendation:

MRDI should take necessary steps to address issue.

Findings 05:

Non-compliance observed in the Guidelines on Prevention of Money Laundering and Terrorist Financing.

Fact:

On verification of compliance of 'Guidelines on Prevention of Money Laundering and Terrorist Financing for NGO/NPO Sector' dated November 2013, we observe some non-compliance. Details are given below:

- a) According to section 4.3.1, Each NGO/NPO shall have Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) Policy and have it approved by their Board of Directors/Trustee/top most policy making committee for proper compliance of relevant laws, circulars and guidelines issued by BFIU to prevent money laundering and terrorist financing. policy has yet been developed by the NGO.
- b) According to section 4.3.2, NGO/NPO should communicate clearly to all employees on an annual basis through statement from the chief executive officer that clearly sets forth its policy against money laundering/terrorist financing and any activity which facilitates money laundering or the funding of terrorist. On verification, we observe that Management has not yet communicated such policy to its employees.



- c) According to section 4.3.3, Each NGO/NPO shall form an AML/CFT Compliance Unit in its head office which shall facilitate the CAMLCO to perform his responsibilities properly. On verification, we observe that CAMLCO has not yet been appointed and AML/CFT compliance has yet not been formed.
- d) According to section 4.3.4, NGO/NPOs shall take appropriate steps to identify, assess and understand their ML/TF risks for customers/direct beneficiaries (person, group of persons or organization etc), countries or geographic areas, products, services, transactions or delivery channels. Based on the risk assessment, NGO/NPO shall take appropriate measures to mitigate the risk. On verification, we observe that no such steps were yet taken.
- e) According to section 4.3.10, the senior management shall conduct meeting once at least in every 3 (three) months on AML/CFT strategy and activities of the organization. On verification, we observe that no such meetings were held.

Effect:

Guidelines on Prevention of Money Laundering and Terrorist Financing for NGO/NPO Sector' dated November 2013. The NGO might be penalized for such non compliance.

Management Response:

MRDI is in a process of reviewing its Financial and Administrative Manual. While reviewing the manual, a guideline on prevention of money laundering and terrorist financing will be included.

Recommendation:

MRDI should implement procedures to comply with the requirements of the above-mentioned guideline.

