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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 2011



**ACNABIN**

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The Board of Directors  
Management and Resources Development Initiative (MRDI)  
2/9, Sir Syed Ahmed Road  
Mohammadpur  
Dhaka- 1207

19 October 2011

Dear Sir,

**Auditor's Letter to the Management of MRDI for the year ended 30 June 2011**

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 2011. 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 2011**

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#### **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.

#### **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 2011 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

<b>Finding #</b>	<b>Observations</b>	<b>Recommendations</b>
1.	Fixed assets register was not maintained with required information	Management should bring better control system for fixed assets management.
2.	Outstanding loan is unadjusted since long time	Management should take required initiatives to write off the unrecoverable loan amount to show actual financial position and performance.
3.	Inappropriate classification of expenses	Necessary steps should be taken for the proper charge of expenses in the appropriate heads of accounts.
4.	Insufficient books of accounts	Management should take required initiatives for proper keeping books of accounts (subsidiary ledgers).
5.	Excess VAT was paid against office rent	Management should properly monitor the government laws and regulations. Otherwise penalty may be imposed by the concerned authority and organization may suffer loss.





## **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 exceptions:

- (i) MRDI maintains its books of accounts manually; as a result there remain the possibility of clerical mistakes and misstatements. Moreover, periodic reports cannot 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.

#### **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 the Executive Director, the procurement procedure is carried out by a three member procurement committee led by one Director representing the Board of Directors of the organization.

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.

### **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.

#### **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 are procured at the name of the organization and proper control is seemed to be established. But in some cases, we observed weaknesses in maintaining the assets i.e. fixed asset register is not properly maintained. Some of the instances are given below:

- a) Vendor names were not mentioned,
- b) Disposal or write off of assets were not included,
- c) Cumulative balances of particular type of fixed assets were not included etc.

#### **Recommendations**

Management has to take appropriate steps to resolve these issues.

## Details of Findings

### Finding # 01

#### Fixed assets register was not maintained with required information

##### Fact

We observed the fixed assets register was not maintained properly with the required information. Some instances are given below:

- a) Vendor names were not mentioned,
- b) Disposal or write off of assets were not included,
- c) Cumulative balances of particular type of fixed assets were not included etc.

##### Effect

It indicates poor internal control system regarding fixed assets management.

##### Recommendation

Management should take required initiatives for maintaining fixed assets register with required information to ensure proper utilization of fixed assets with sound control.

##### Management Response

We have been maintaining our assets register before developing our financial & administrative manual. As a result the format of the register does not fully comply with the manual. We hope to update the register based on the recommendation of the auditors.

### Finding # 02

#### Outstanding loan is unadjusted since long time

##### Fact

We observed that Long time unadjusted balance under the head of "Loan to other project" has shown in the financial statements as current asset though it is confirmed that the amount would not be recovered in future.

Particulars	2005-06 (Tk.)	2006-07 (Tk.)	2007-08 to 2010-11 (Tk.)
Loan to Project	20,347	42,347	62,031

##### Effect

Actual financial position and performance could not be shown in the financial statements. Moreover, it indicates weak fund management system.



**Recommendation**

Management should take required initiatives to write off the unrecoverable loan amount to show actual financial position and performance.

**Management Response**

We will raise the issue to the next board meeting for adjustment.

**Finding # 03**

**Inappropriate classification of expenses**

**Fact**

We observed that some expenses were charged under inappropriate heads of accounts. Details are given below:

Name of Expense	Shown in	Appropriate head
Employee Medical Expense	Repair & Office Maintenance	Salary and Benefit
Entertainment Cost	Repair & Office Maintenance	Entertainment Cost

**Effect**

Results from financial statements analysis could not be found accurate. Moreover, it reflects weak accounting system.

**Recommendation**

Necessary steps should be taken for the proper charge of expenses in the appropriate heads of accounts.

**Management Response**

- a) As an irregular expense, we do not have any budget or head item for medical expenditure. This expenditure was incurred in an unforeseen case. One of our programme officers fell sick during a programme and was hospitalized immediately. His medical expenses were provided by the organization. It is not related to salary.
- b) We do not have separate head of account titled entertainment cost. We treat the cost of entertainment as a part of office maintenance. So we think the charging of this cost under office maintenance is perfect.

### Finding # 04

#### Insufficient books of accounts

##### Fact

We observed that MRDI does not maintain sub ledgers to support the control ledger.

##### Effect

For ensuring strong control regarding accounting system, sub ledgers should be maintained by management.

##### Recommendation

Management should take required initiatives for proper maintaining of books of accounts.

##### Management Response

As the betterment of the accounting system we will take necessary steps for maintaining subsidiary ledgers.

### Finding # 05

#### Excess VAT was paid against office rent

##### Fact

We observed that Excess VAT was paid for the period from February 2011 to June 2011 against office rent.

Name of Month	Monthly Office Rent	VAT Paid @15%	Actual VAT @09%	Excess VAT Paid
February	49,500	7,425	4,455	2,970
March	49,500	7,425	4,455	2,970
April	49,500	7,425	4,455	2,970
May	49,500	7,425	4,455	2,970
June	49,500	7,425	4,455	2,970

##### Effect

It indicates the non compliance of VAT Act, 1991 and also reflects weak monitoring regarding government laws and regulations.

### **Recommendation**

Management should properly monitor the government laws and regulations. Otherwise penalty may be imposed by the concerned authority and organization may suffer loss.

### **Management Response**

We were not informed about the latest circular. If we get the circular we will adjust the excess payment.