

Howladar Yunus & Co.

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**Management and Resources
Development Initiative (MRDI)**
Management Letter on the Financial Audit
for the year ended June 30, 2014

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December 03, 2014



Howladar Yunus & Co.

Gulshan Office

Howladar Yunus & Co.

House - 14 (4th floor)
Road - 16A, Gulshan -1
Dhaka - 1212
Bangladesh

T +88 (0)2 9883863

F +88 (0)2 9552989

www.howladaryunus.com

Transmittal Letter

HYC/MF/Audit/MRDI/2014/553

December 03, 2014

Executive Director

Management and Resources Development Initiative (MRDI)
8/19 Sir Syed Road (3rd Floor)
Block-A
Mohammadpur
Dhaka-1207

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 of 01 July 2013 to 30 June 2014 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 not modify our opinion thereon. All these reported in the attached memorandum under the head "Observation" with four sections:



Chartered Accountants

Correspondent firm of Grant Thornton International Ltd.

Howladar Yunus & Co.

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 NGO 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 NGO 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 NGO 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.

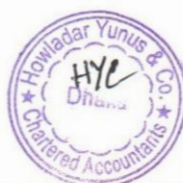
Yours faithfully,


Chartered Accountant

Howladar Yunus & Co.

Contents

- 1 Purpose of this letter
- 2 Scope of services
- 3 Our methodology
 - 3.1 Audit methodology
 - 3.2 Auditing to International Standards
 - 3.3 Communication with Management and those Charged with Governance
 - 3.4 Management Letter
- 4 Observations



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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 30 July, 2014 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 30 June, 2014 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 International Standards on Auditing (ISAs) 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, ISAs 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.

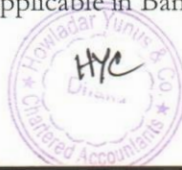
3 Our Methodology

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 all statutory, management and financial audit assignments, the internationally recognized and defined audit approach of Grant Thornton International (GTI) committed to the highest levels of quality and excellence. We conduct our audit applying the latest audit techniques, quality control procedures and following the recommended and accepted ISAs as applicable in Bangladesh.



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

Findings-1:

MRDI does not have any policy for the operation of the Gaon Swapna Fund.

Fact: Through Gaon Swapna project MRDI is aiming to showcase and sell hand made products of women lived in the rural area of the project to the peoples living at urban area and abroad. The objective of this project is to generate income and use it for the disadvantaged women of the project area.

On verification, we observe that, fund of the project has been maintained in a separate bank account which is operated by the management of MRDI. There is no policy regarding the fund management. Besides, the project is not registered with any authorities, rather is a part of MRDI. Thus, income generated under the project should route through the income statement of MRDI and subject to tax for which no provision has been made in the accounts.

Effect: This might attract the irregularities in the Gaon Swapna Fund.

Management Response: 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. The beneficiaries of the fund live in the remote areas of Sundarbans & Jessore and custodian is in Dhaka. Participation of the beneficiaries is not easy due to the physical distance. The policy regarding the fund management is under consideration of MRDI.

Recommendation: MRDI should register the project as a separate entity.

Findings-2: Contributory Provident fund of MRDI is not registered with NBR and not operated under any Board of Trustee & policy for the operation of the fund yet to be developed.

Fact: In the 10th Annual General Meeting, the board of directors decided to open a contributory provident fund (CPF) from February 2014 on the existing basic (8.333%) of each full time and regular staff. Contributory Provident Fund of MRDI is not approved by NBR and is not operated under any Board of Trustee. The fund amounting to Taka 179,082 has been kept in a separate interest bearing bank account which is contrary to the provisions of section 20 of the Trust Act 1882. Moreover, the fund was maintained under the MRDI policy and there was no policy to guide how the settlement will be reached if any employees retire or resign.

Effect: The expenses related to CPF will be disallowed by Tax Authority.

Management Response: Contributory Provident Fund is a new benefit for the fulltime & regular staff of MRDI started from February 2014. Separate Bank Account is maintained for the fund. In the mean time MRDI communicated with several organizations regarding the registration of the Fund. The process of registration involves cost & time. But we are in the process of placing a policy to the board for approval.

Recommendation: MRDI should immediately adopt a policy so that staff interest is protected.

Findings-3:

There were no budget committee and annual budget prepared for MRDI.

Fact: As per clauses no. 6.3.1 and 6.4 of the Financial and Administrative Manual, a master budget should be prepared by the Budget Committee consolidating all financial activities of a particular period which should be approved by the board. On verification we observe that MRDI did not form a budget committee or a master budget for the organization for a particular period.

Effect: This might attract the irregularities in the fund management of the organization.

Management Response: MRDI has no certain source of annual income to implement programme. It implements its projects and programmes with donors' money. So it is difficult to estimate the whole years' activity and budget from the commencement of the fiscal. That is why, MRDI prepares the project based budget, and not a master budget. Project budgets are developed simultaneously with the proposal. So budget committee is not required.

However, MRDI plans to prepare a six month budget on trial basis with some programme forecast in next January. If it works, we will try to go for annual budget for the organization. Still, regular flow of funds has to be there to make it work.

Recommendation: MRDI should follow the directives of their Financial and Administrative Manual; to ensure proper internal control and for the fruitful operation of the organization.

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Findings-4:

The Bank Reconciliation was prepared by the accounts officer.

Fact: As per clauses no. 8.11 of the Financial and Administrative Manual, the reconciliation should be done by an official other than the account officer who maintains the cash book. On verification we observe that the Accounts Officer prepares the bank reconciliation statement which is the violation of the Financial and Administrative Manual.

Effect: There is a possibility of misappropriation of fund.

Management Response: MRDI is a small organization of 15 staffs and among them 3 belong to the finance department. Organization's financial works are distributed among these 3 persons. Considering the volume of work, appointment of additional staff for cash handling is not financially viable. So one assistant manager finance is maintaining petty cash along with bank reconciliation which is checked by Manager, finance and approved by the Executive Director.

Recommendation: MRDI should follow the directives of their Financial and Administrative Manual; to ensure the internal control and for the fruitful operation of the organization.

Findings-5:

The Petty cash is maintained by the employee of the Accounts Department.

Fact: As per clause no. 9.7 of the Financial and Administrative Manual, the petty cash book should be maintained by a reliable person not involved in accounting and procurement. On verification we observe that the Accounts Officer is maintaining the petty cash book in the organization which is a violation of the Financial and Administrative Manual.

Effect: There is a possibility of misappropriation of fund.

Management Response:

MRDI is a small organization of 15 staffs and among them 3 are finance staffs. Organization's financial works are distributed among the 3 persons. Considering the volume of work, appointment of additional staff as per nature of work is not financially viable. So one assistant manager finance is maintaining petty cash which is checked by Manager, finance and approved by the Executive Director on daily basis. We think the process ensures the internal control for the fruitful operation of the organization

Recommendation: MRDI should follow the directives of their Financial and Administrative Manual; to ensure the internal control and for the fruitful operation of the organization.

Findings-6:

Procurement Policy was not duly followed for program expenditures.

Fact: As per clause 13.13 of the Financial and Administrative Manual, all procurement of goods and services should be done following the procurement policy. During our verification we observed that Conference Hall was rented from Hope Foundation for training against which competitive quotations have not been obtained. Details are as follows.

Voucher No. & Date	Particular	Amount
DV-402, 18/02/2014	Program Cost-Unicef	230,707
DV- 328, 13/02/2014	Program Cost-Thomson	279,904



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Effect: There is a possibility of over expenditure of the organization.

Management Response: As per procurement policy of MRDI we compare the price of same quantity & quality of goods/services. Two programmes mentioned above were organized at Hope Centre, Savar. This centre has some unique facilities in terms of quality of services and proximity to the capital city which are not available in other organizations. As per clause 13.5.1 of the MRDI Financial and Administrative Manual we can take services from the sole sourcing organization following their price list. We are doing so.

Recommendation: MRDI should follow the directives of their Financial and Administrative Manual; to ensure the internal control and for the fruitful operation of the organization.

Findings-7:

Violation of procurement policy.

Fact: As per the clause no. 13.13 of Financial and Administrative Manual, all purchases should be done following the flow chart mentioned in the procurement policy. According to step seven of the flowchart of the manual, the concerned authority (other than procurement committee) will issue purchase order to the lowest bidder or the bidder recommended by the procurement committee. During our verification we observe that a member of the procurement team has placed a purchase order violating the above clause for the purchase of four split air conditioner.

Effect: There is a possibility of misappropriation and over expenditure of the organization.

Management Response: MRDI is a small organization of 15 staffs including 1 Executive Director, 2 Advisors, 7 senior staffs, 3 junior staffs and 3 support staffs. MRDI always tries to comply with the internal and government rules. We also try to ensure quality and transparency. So considering the importance of work, Manager, finance as a senior staff & team member of procurement committee has been assigned to issue the work order. MRDI thinks that internal control has been ensured through this process. Still we will take care about the issue in future.

Recommendation: MRDI should comply with this policy of the Financial and Administrative Manual to establish good governance in the organization.

Findings-8:

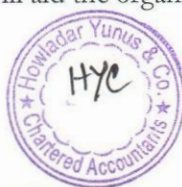
No Quality control committee exists in MRDI.

Fact: As per clause no. 13.13 of the Financial and Administrative Manual, materials received by the store department should be checked by the quality control committee. During our verification we observed MRDI did not form any quality control committee for the said purpose.

Effect: Quality of the material may not be up to the standard.

Management Response: Due to small size of staff, quality control committee has not been formed. But supplies are received through proper checking.

Recommendation: A quality check will ensure the goods are up to satisfactory quality required by MRDI; this is a detective control that will aid the organization greatly.



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Findings-9:

Acknowledgement of Beneficiaries for direct support was not found under the Ericsson Project.

Fact: During our verification we observed that fund was disbursed through the Ericsson contract to aid the victims of the Rana Plaza incident. However, MRDI does not keep any acknowledgment of the aid provided to the beneficiaries.

Effect: The direct support may not be provided to the actual Beneficiaries.

Management Response: To provide assistance to the victims of the Rana Plaza incident an agreement was signed between MRDI and the victims/their representatives in presence of Deputy Commissioner, Jessore. The victims were clearly informed about the aid they would receive. Then through the direct supervision of two prominent journalists of Jessore & Bogra the aid commodities were purchased and handed over to the victims/their families. Cash memo of the aid purchase and photo of receiving aid is attached with the vouchers.

Recommendation: MRDI must maintain documents while giving local aid to reduce the risk of frauds and errors.

Findings-10:

No Insurance coverage exists for cash in hand and fixed asset.

Fact: As per the clauses 9.6 and 14.7 of the Financial and Administrative Manual, there should be insurance coverage for cash in hand and fixed asset respectively. On verification we observed that there was no insurance coverage.

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 viable for the organization.

Recommendation: MRDI should take insurance coverage for cash in hand and fixed asset.

