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Management Letter
on 
The audit of the consolidated financial
statements
of
Management and Resources Development
Initiative (MRDI)
For the year ended 30 June 2018

Nurul Faruk Hasan & Co

Chartered Accountants

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For the year ended 30 June 2018

07 December 2018

Mr. Hasibur Rahman
Executive Director
Management and Resources Development Initiative (MRDI)
8/19, Sir Syed Road (3rd Floor)
Block # A, Mohammadpur
Dhaka - 1207
Bangladesh

Subject: **Management Letter on the audit of the consolidated financial statements of Management and Resources Development Initiative (MRDI) for the year ended 30 June 2018**

Dear Sir,

We have audited the financial statements of Management and Resources Development Initiative (MRDI) for the year ended 30 June 2018 and have submitted our audit report and audited financial statements separately.

Our audit was carried out with the objective to form an opinion on the financial statements and to highlight the weaknesses in the internal control system that came to our notice during the course of our audit. Our audit included an examination of accounting procedures and records, on a test basis, as were considered appropriate under the circumstances. On the basis of our audit observations and findings, we would like to bring certain matters for your attention. Each of our findings has been presented in the following fashion:

- 1st Paragraph - Observation
- 2nd Paragraph - Implication
- 3rd Paragraph - Recommendation
- 4th Paragraph - Management Response

However, it may be mentioned here that there may exist some material weaknesses in the internal control systems which are not revealed through our sample testing. To reveal those weaknesses a more in-depth approach of internal control testing is required which is basically not in the scope of our audit engagement of the financial statements.

We would like to keep on record our sincere thanks and gratitude to the management and staff members of Management and Resources Development Initiative (MRDI) involved with the project for extending their cooperation in conducting the audit.

Thanking you.

Yours faithfully,



Nurul Faruk Hasan & Co
Chartered Accountants

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1. Physical stock count of Gaon Swapna products was not performed at the end of the period

Observation:

While verifying stock registers of MRDI, we noted that MRDI authority did not perform physical stock count at the end of 30 June 2018.

We also noticed that stock registers maintained by MRDI through MS Excel Sheet did not have required number of fields such as date of receipt of stock along with date of issue etc.

Implication:

It indicates lack of internal control system in practice.

Recommendation:

MRDI authority should perform physical stock count of Gaon Swapna products at the period end and make necessary adjustment if found any shortage or excess.

Management response

The physical stock count of Gaon Swapna products is done by the finance staffs along with the staff responsible for maintaining store. But no formal committee was formed for the action. From this year it will be done formally by a committee.

2. Non-compliance with the Income Tax Ordinance 1984 and Income Tax Rules 1984

I. Non-submission of the statement regarding filing of return of employees

Observation:

As per sub-section (2) of section 108A of the Income Tax Ordinance 1984, any person responsible for making any payment which is an income of the payee classifiable under the head of "Salaries", shall prepare and furnish a statement regarding filing of return of employees to the Deputy Commissioner of Taxes by the thirtieth day of April each year. During our audit, we did not find the above statement furnished by MRDI.

II. Non-submission of the return of withholding tax

Observation:

As per sub-section 75A of the Income Tax Ordinance 1984 and rule 24A of the Income Tax Rules 1984, the return of withholding tax is required to be filed by the assessee being a company using the form prescribed in rule -24A half yearly within the time frame as stated below:

Withholding tax return	Period of deduction at source	Last date of filing the return
First return	01 July to 31 December	31 January of the relevant assessment year
Second return	01 January to 30 June	31 July of the next assessment year

The return accompanied by a statement of deduction along with copy of treasury challan or payment orders is required to be filed to the Deputy Commissioner of Taxes. But we noted that no such return was filed by MRDI to the tax authorities.

Implication:

- Non-compliance with the Income Tax Ordinance 1984 and Income Tax Rules 1984;
- Penalty might be imposed by the Tax Authority due to non-submission of the statement.

Recommendation:

MRDI authority should comply with the requirements of Income Tax Ordinance 1984 and Income Tax Rules 1984

Management Response:

MRDI authority always tries its best to comply with the requirements of government rules and regulations. We had no clear idea about this provision of the ordinance, and none of the previous auditors made any observation or recommendations on it. We are thankful to the audit firm for drawing our attention to it. MRDI will comply with the requirements of Income Tax Ordinance 1984 and Income Tax Rules 1984.

3. Non-compliance with the NGO Affairs Bureau’s instructions for cash payment over Tk. 10,000

Observation

As per instruction of NGO Affairs Bureau’s guidelines issued from the Prime Minister Office dated 12 April 2012, payment over Tk. 10,000 should be made through banking channel. During our audit, we noticed in a number of cases that cash payments were made to various parties over Tk. 10,000. Instances are as follows:

Voucher no. & date	Expense head as per FS	Purpose of payment	Amount Taka	Project
135 & 14-Jan-2018	Construction of Training Centre & Health Clinic	Amount paid to M/S Akota electric by UDT for the supply of electrical goods	20,095	Livelihood programme for the women and health clinic for the community-funded by Mutual Trust Bank Ltd. (MTB)
032 & 15-Apr-2018	Clinic management & expenditure	Amount paid to Medi Fair for the supply of laboratory materials	21,685	
154 & 31-Mar-2018	Clinic management & expenditure	Amount paid to Meem Furniture & Isme Azam Foam Collection for the supply of furniture & bedding materials	32,657	

Implication:

Non-compliance with the NGO Affairs Bureau’s instructions.

Recommendation:

MRDI authority should make payment over Tk. 10,000 using account payee cheque for the compliance with NGOAB’s instructions to avoid any legal complicity.

Management Response:

MRDI authority should make payment over Tk. 10,000 using account payee cheque for the compliance with NGOAB’s instructions to avoid any legal complicity.

4. Use of advance payment practice made to staff

Observation:

We noted that MRDI used to make advances to its staff members several times for programme related expenses. Such instances are given as below:

Voucher no. & date	Ledger head	Name of staff	Purpose of advance	Amount Taka	Project
161 & 05-Apr-2018	Advance for expenses	Md. Mizanur Rahman (Senior officer-HR & Admin)	Advance made to Md. Mizanur Rahman against field monitoring & supervision by MRDI which includes travel, transportation, accommodation, daily allowance and miscellaneous.	125,000	Livelihood Programme for the Women and Health Clinic for the Community-funded by Mutual Trust Bank Ltd. (MTB)
132 & 04-Jan-2018	Advance for expenses	Md. Mizanur Rahman (Senior officer-HR & Admin)	Advance made to Md. Mizanur Rahman against field monitoring & supervision by MRDI which includes travel, transportation, accommodation, daily allowance and miscellaneous.	85,000	
152 & 28-Mar-2018	Advance for expenses	Md. Mizanur Rahman (Senior officer-HR & Admin)	Advance made to Md. Mizanur Rahman against field monitoring & supervision by MRDI which includes travel, transportation, accommodation, daily allowance and miscellaneous.	62,100	
156 & 01-Apr-2018	Adv for Exp	Md. Mizanur Rahman (Senior officer-HR & Admin)	Advance made to Md. Mizanur Rahman for the purchase of materials for training centre & inauguration and wall painting	107,900	Improving Qualitative Journalism In Bangladesh funded by Fojo Media Institute

Voucher no. & date	Ledger head	Name of staff	Purpose of advance	Amount Taka	Project
227 & 28-Aug-2018	Advance for expenses	Ms. Aktarun Naher	Advance made to Ms. Aktarun Naher against equipment rental & other expenses for promotional films from Choturvuj Media Plus and camera persons' (Mr. Md. Jamal Hossain and Mr. Md. Kajal) per diem.	94,000	
206 & 11-Jul-2018	Advance for expenses	Ms. Aktarun Naher	Advance made to Ms. Aktarun Naher against network meeting with editors and regional dialogue on S & S for journalists who paid the amount to various participants from outside Dhaka as subsistence allowance.	442,000	

Implication:

This indicates a lack of internal control system in practice.

Recommendation:

MRDI authority should avoid its risk of cash payment as much as possible.

Management Response:

As per MRDI policy for advance, the programme advances are made to the staff for organizing training, workshop, seminar etc. in Dhaka and outside Dhaka. Cash payment is required for hiring some venues in and outside Dhaka, food, travel, accommodation and daily allowance of participants and MRDI staff. It is very much in compliance with our policy.

5. Employee provident fund having not been audited as per requirement of Bangladesh Labour Rules 2015**Observation:**

MRDI has a recognized provident fund which obtained approval from the tax authorities on 28 December 2015. As per condition no. 01 of approval of the provident fund, MRDI is required to submit a separate audited financial statements of the provident fund to the Deputy Commissioner of Taxes. Beside, as per rules 260 of the Bangladesh Labour Rules 2015, it is stipulated that yearly accounts of the fund should be audited by a recognized audit firm. But we have noted that no such audit was performed for MRDI recognized provident fund as of the date of the audit.

Implication:

- Non-compliance with the conditions attached with the approval of provident fund by tax authorities.
- Non-compliance with Bangladesh Labour Rules 2015

Recommendation:

Yearly accounts of the provident fund of MRDI should be audited by a recognized audit firm.

Management Response:

We had an understanding that fee for audit of the PF has to be paid from the fund itself. Considering the size of fund, we didn't perform audit of the PF. During the audit we came to know that it is the responsibility of the organization. We will place the issue in the next board meeting for approval.

6. Follow up of the last year’s auditors’ observations and recommendations

We have taken the latest implementation status of the last year’s auditors’ recommendations and these are shown as follows:

Sl. no.	Area	Previous Auditor’s Recommendation	Latest Status
1	Fund	Auditors recommended MRDI to formulate a policy for the management of Gaon Swapna fund.	Not complied
2	Cash & fixed assets	Auditors recommended MRDI to take insurance coverage for cash in transit and fixed asset.	Not complied
3	Internal audit department	Auditors recommended MRDI to introduce internal audit department in the organization so that they can detect and prevent any fraud and no-compliance committed by employees of the organization.	Not complied
4	Outstanding liabilities	Auditors recommended MRDI to take necessary steps to address issue relating to long-standing liabilities of Tk. 324,222.	Complied
5	Policy relating to the prevention of Money Laundering and Terrorist Financing	Auditors recommended MRDI to implement procedures to comply with the requirements of the guidelines on Prevention of Money Laundering and Terrorist Financing for NGO/NPO Sector.	Complied

Management Response:

1. 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 use of CSR as a sustainable alternative source of development fund and market the hand made products of women living in the mentioned rural area to generate income for their better life and livelihood. MRDI is only the temporary custodian of the fund as the associations 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 thinks that no separate policy 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.

2. MRDI keeps a small amount in cash and is 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.
3. 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 4 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.

-----The End-----

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