

Agency for Accelerated Regional Development (AFARD)

Audit for the year ended 31 December 2021

Management Letter

April 2022

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Our Ref: RSMEA/2022/118

The Executive Director
Agency For Accelerated Regional Development
Plot 3-5, Butiime Road
Nebbi Municipality, Uganda

26 April 2022

Dear Sirs,

Re: Management letter – audit for the year ended 31 December 2021

We enclose a report setting out recommendations arising from our audit of Agency For Accelerated Regional Development (AFARD) financial statements for the year ended 31 December 2021. The report covers certain matters relating to internal control and the system of accounting, which came to our attention during the course of our audit. We have prepared this report in accordance with ISA 265 'Communicating deficiencies in internal control to those charged with governance and management'.

Our recommendations have been discussed with management, and their responses are included in the report under "management comments".

An audit is not designed to identify all significant weaknesses in an entity's system of internal financial controls. Our review of the internal financial control systems is only carried out to the extent required to enable us to express an opinion on the entity's financial statements and therefore our review and the recommendations arising therefrom should not necessarily be regarded as a comprehensive list of all possible improvements to the system of internal financial controls or to operational procedures, which a more extensive review might reveal. Moreover, the letter forms part of a continuing dialogue between us and is therefore not intended to include every matter that comes to our attention during the course of our audit.

This report has been prepared solely for the use of the management of your project and may not be provided to any third party without our prior written consent. Such consent will only be granted on the basis that the letter has not been prepared with the interests of any third party in mind and that we accept no duty, responsibility or any liability whatsoever to that party.

Yours faithfully,

**RSM Eastern Africa**

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Executive summary

Number	Matters arising
1.	Preparation of key reconciliations Management should ensure that monthly reconciliations between PAYE returns and payrolls are formally prepared, documented and reviewed by an officer independent of the preparer.
2.	Related parties transactions Management should maintain a related parties ledger for easy tracking to avoid tax exposure risk.
3.	Incomplete payrolls Management should ensure that employees are included on the payroll in the months they join.

Status of prior year management letter points

Prior year recommendations 2020		Status
1. Projects' monitoring	Management should ensure that beneficiaries and village savings groups are given trainings on how to run lending transactions; Furthermore, the organisation should design a mechanism of verifying that funds under the inclusion project have reached the target beneficiaries.	Implemented.
2. Agricultural crops' mix	Management should ensure that different agricultural inputs and seeds are distributed to farmers to avoid depending on only one type of crop to enhance production and increase the source of income.	Not implemented.
3. Personnel files	Management should ensure that all employee files are properly maintained.	Implemented.
4. Review and authorization of journal entries	Management should ensure that all journals are reviewed, approved and authorized by an independent officer from the initiator.	Implemented.
5. Computation of Local Service Tax (LST)	Management should ensure that local service tax is treated as an allowable deduction when computing Pay As You Earn (P.A.Y.E).	Implemented.

Prior year recommendations 2019	Status
<p>1. Deficiencies in Information Technology(IT) general controls</p> <p>We recommend to management that; the IT policy should be in place, approved by management, shared with and acknowledged by staff. There should be a formal agreement with the service provider so that work performed can be clearly defined. There should also be a designated place/room for the server. The physical access to the server room should be restricted to one administration staff and the IT support officer.</p>	<p>Partially implemented.</p>
<p>3. Inadequate insurance cover</p> <p>We recommend that insure all its assets. Insurance cover should be reviewed and adjusted if necessary on a periodic basis (say annually) with the assistance of specialist insurance advisors.</p>	<p>Implemented.</p>
<p>4. Lack of an internal audit function</p> <p>We recommend that management reviews the requirement for implementation of an internal audit function based on the current and expected future activities of AFARD. The department would focus initially on areas that are of concern to management and in which there may be lack of control with the view to ensuring that key management objectives and strategies are achieved.</p>	<p>Implemented.</p>

Rating for matters identified

Each weakness identified has been assigned a subjective rating, which may in turn be used to prioritise the resources required to address the problem. This will enable management to assess the relative importance of the weaknesses.

The key to these ratings is as follows:

High	H	Weaknesses that are of such a severe nature that they pose an immediate risk to the system of internal control threaten the Organization's operations and should be brought to the urgent attention of those charged with governance.
Medium	M	Weaknesses which have an increased capability of seriously compromising the system of internal control and should therefore be corrected as soon as possible.
Low	L	Weaknesses which may compromise the system of internal control and should therefore be corrected.

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Detailed observations, implication and recommendations

The following matters came to our attention in conducting the audit of Agency For Accelerated Regional Development (AFARD) financial statements for the year ended 31 December 2021.

1. Preparation of key reconciliations

Observation	Rate	Implication	Recommendation	Management comments
<p>We noted that management does not prepare key reconciliations, such as; PAYE returns submitted vs payroll.</p> <p>This reconciliation needs to be formally prepared and reviewed by management on a monthly basis.</p>	H	Risk penalties and fines for non-compliance with the Income Tax Act hence losses to the company.	Management should ensure that monthly reconciliations between PAYE returns and payrolls are formally prepared, documented and reviewed by an officer independent of the preparer.	Noted for action. This was due to some newly on boarded staff delaying to acquire TINs due to challenges in acquisition of National IDs. All their PAYE deductions were subsequently remitted to URA. To date all these returns have been filed.
<p>Please state:</p> <p>➤ <i>Person responsible:</i> Director Finance and Administration</p> <p>➤ <i>Implementation date:</i> On-going</p>				

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2. Related party transactions

Observation	Rate	Implication	Recommendation	Management comments
We noted management does not maintain a list of related party transactions for the year. AFARD's related party by common directorship is West Nile holdings.	H	Risk of non-compliance with the Income Tax Act regarding the capping of the acceptable limit of related party transactions value.	Management should maintain a ledger for related party transactions for easy tracking to avoid tax exposure risk.	Noted for action.
Please state: <ul style="list-style-type: none"> ➤ <i>Person responsible:</i> Director Finance and Administration ➤ <i>Implementation date:</i> <i>On going</i> 				

3. Incomplete payrolls

Observation	Rate	Implication	Recommendation	Management comments
We noted that an employee who joined in March 2021 was paid off the payroll for the month of March and recorded in the payroll for the month of April.	L	Risk that non existing employees may be included on the payroll.	Management should ensure that employees are included on the payroll in the month that they join.	Noted for action.
Please state: <ul style="list-style-type: none"> ➤ <i>Person responsible:</i> Director Finance and Administration ➤ <i>Implementation date:</i> <i>On-going</i> 				