

Minutes of the 102th Executive Committee (EC) Meeting of Coastal Association for Social Transformation (COAST) Trust held on 29th September, 2019 at COAST Principal Office, House-13, Road-2, Shyamoli, Dhaka.

Member participated:

1. Begum Shamsun Nahar, Chairperson
2. Minar Monsur, Vice-Chairperson
3. M. Zahirul Alam, FCA, Treasurer
4. Dr. Abbas U Bhuiya, Member
5. Rezaul Karim Chowdhury, Member Secretary (Executive Director, COAST)

Agenda transacted:

- A. Board Letter issued by External Auditor (Howladar Yunus & Co) of COAST Trust
- B. Money laundering compliances of MRA
- C. Any other Business (AoB)

The meeting was started with the welcome address from the Chairperson. The decisions and major discussions of the meeting are as follows.

A. Board Letter issued by Howladar Yunus & Co for COAST Board response :

The Secretary informed that the EC (Executive Committee) has appointed Howladar Yunus & Co. (Chartered Accountants) for conducting audit for the financial year 2018-19 and accordingly they are about to finish the audit activities. At present they are almost finalized the MF audit report which is supposed to be submitted at MRA by 30th Sep'19. While verifying the report, the external auditors has brought-up some observations regarding MF operation and its accounts keeping system. In this regard they have issued a letter to the Board of Trustee (at present EC) as on 28th September, 2019 (Ref: **HYC/MF/CT/Audit/2019, Dt: September 28, 2019**) seeking the response from EC. The EC has appreciated the matter and has instructed to present the report to the ED meeting and also write the response against the observation on behalf of EC.

HYC Observations on MF (Policy Issues):

1. Non-compliance of Para- 1.27 of IAS-1 (Presentation of financial statements) regarding Accrual Basis of Accounting and Presentation.

As per para 1(a) of MRA/circular letter No-18 dated 16 July 2013 of Microcredit Regulatory Authority, Coast Trust Bangladesh has to comply with the International Financial Reporting Standards (IFRS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) while maintaining accounting records and preparing financial statements, and report. On our verification we observe the following findings relating to noncompliance of International Financial Reporting Standards (IFRS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB). Details are as follows:

A. Interest Expense was booked on cash basis instead of accrual basis resulting shortfall of recording interest expense and interest payable of Taka 28,072,845 in the Financial statement.

As per Para 1.27 of IAS-1, "An entity prepares its financial statements, except for cash flow information, using the accrual basis of accounting". On verification we observe that COAST Trust has taken loan from nine (09) different lender and interest is recorded in books of account on cash basis when interest is paid. Total shortfall of interest expense and interest payable is Taka 28,072,845. Details are given below:

SL. No	Name of Party	Date	As per COAST Trust (A)	As Per Loan Statement (B)	Shortfall
1.	Stromme Foundation	30-06-2019	93,843,749	101,719,922	7,876,173
2.	PKSF	30-06-2019	534,170,990	538,864,316	4,693,326
3.	One Bank Ltd.	30-06-2019	80,000,000	81,840,556	1,840,556
4.	Mutual Trust Bank Ltd.	30-06-2019	206,619,365	213,628,225	7,008,860
5.	Midland Bank Ltd.	30-06-2019	137,190,314	143,314,560	6,124,246
6.	Meghna Bank Ltd.	30-06-2019	15,009,250	15,388,934	379,684
7.	Southeast Bank Ltd.	30-06-2019	60,000,000	60,150,000	150,000
Total			1,126,833,668	1,154,906,513	28,072,845

COAST Response:

Interest Expense was booked according to the schedule of lender organization and we are practicing this method from the inception of the organization but anyhow this method is not matched with the accrual basis accounting system.

Generally all the bank and financial institute calculate the interest on last date of the financial year and it is not possible to know the actual amount in the same date and though we are maintaining software based accounting so sometimes its create problem to booked a entry on back date. But in future we will strictly follow the accrual base accounting in respect of booking interest expenses.

It is hard to agree with serial number 01 and 2, both PKSF and Stromme Foundation shown principal amount in their statement (shown under column-A) and they usually do this. They do not calculate the accrual interest in their loan statement.

We are not in position to agree with the serial number 3 (One Bank) also, here the mentioned amount Tk.18,40,556 is not correct, we have booked the interest payment on 30th June 2019 but bank deducted the interest on July 2019. We have kept this amount in reconciliation. We have paid Tk.18,00,000/- as interest to the bank since as on 30.06.2019 at the we had not the loan schedule and that's why we could not deposited the actual interest Tk.18,40,556 at the end of June'19.

B. Interest Income from Investment was booked in cash basis instead of accrual basis resulting shortfall of booking interest income and interest receivable Taka 1,713,281.

As per Para 1.27 of IAS-1, "An entity prepares its financial statements, except for cash flow information, using the accrual basis of accounting". On verification we observe that COAST Trust has investment as FDR in different bank and interest is recorded in books of account in cash basis when interest is received. Total shortfall in interest income and interest receivable is Taka 1,713,281. Details are given below:

SL. No	Name of Bank	Date	As per COAST (A)	As Per HYC (B)	Difference (A-B)
1.	MLBL	30-06-2019	2,951,504	3,438,023	486,519
2.	MTBL	30-06-2019	1,436,169	1,674,415	238,246
3.	BRAC	30-06-2019	1,213,977	1,723,535	509,558
4.	PBL	30-06-2019	180,614	187,756	7,142
5.	SEBL	30-06-2019	558,984	646,408	87,424
6.	CBL	30-06-2019	-	3750	3750
7.	BKB	30-06-2019	283,029	283,029	-
8	MBL	30-06-2019	1,522,403	1,803,335	280,932
9.	OBL	30-06-2019	977,311	1,077,021	99,710
Total			9,123,991	10,837,272	1,713,281

COAST Response:

Firstly we don't have enough experienced and capable accountant at filed level to calculate the investment interest in day basis. Most of the cases they do mistake to calculate the accrued interest provision and later on its adjustment after getting the actual interest from bank. On the other hand in most of the cases we had to encash the FDR before maturity and in case of in-matured encashment bank did not provide the interest as per commitment. However we our trying our level best to train our respective accounts in this regard.

C. Segregation of Current and Non-Current Liabilities were not presented as per Para- 69 a-d of IAS 1.

As per Paragraph 69a–d of IAS 1 "liabilities are to be classified as current if it expects to settle the liability in its current operating cycle, the liability is due to be settled within 12 months & it does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period". On verification we observe that presentation of current and non-current liabilities was not made properly as per IAS 1. Details are given below:

SL No	Name of the Party	Outstanding Amount as per COAST	As per COAST		Outstanding Amount as per HYC	As per HYC	
			Current Liabilities	Non-Current Liabilities		Current Liabilities	Non-Current Liabilities
1	PKSF	534,170,990	299,278,329	234,892,661	538,864,316	211,824,476	198,383,735
2	One Bank Ltd.	80,000,000	-	80,000,000	81,840,556	81,840,556	-
3	Midland Bank	137,190,314	37,190,314	100,000,000	143,314,560	22,240,852	121,073,708
4	Mutual Trust	206,619,365	86,655,078	119,964,287	213,628,225	159,442,199	54,186,026

COAST Response:

We do agree on it and it is our unintentional mistake. However, we will rearrange this from next year since it would be hardly for us to re-calculate and re-arrange the report due to time constrain. Secondly we are assuming that the amount of current and no-current liability for PKSF is not correct because as per our calculation and the accounts total liability with PKSF is Tk.534,170,990/- but as per the observation of the auditor this balance is Tk.538,864,316. If we added the current liability Tk.211,824,476/- with the non-current liability Tk.198,383,735/- total liability will be Tk.410,208,211 and we think HYC should revisit the calculation.

2. **Interest on group savings deposits has been understated by amounting to BDT 14,892,078**

As per section 6.1 and 6.2 and 6.3 of Microcredit Activity Manual of Coast Trust Bangladesh savings interest on deposits should be charged on monthly average deposits at 6% on monthly basis. On our verification, we observe that Coastal Association for Social Transformation (COAST) Trust has understated the savings interest by amounting to BDT 14,892,078. Details are as follows:

Name of month	Monthly average investment	Interest Rate	Interest Amount as per HYC	Interest charged in Ledger	Understated Amount
July	672,124,635	6%	3,360,623	1,698,425	1,662,198
August	675,444,897	6%	3,377,224	1,248,662	2,128,562
September	680,507,230	6%	3,402,536	2,723,255	679,281
October	682,299,826	6%	3,411,499	2,885,354	526,145
November	691,288,084	6%	3,456,440	2,252,600	1,203,840
December	699,450,359	6%	3,497,252	1,321,843	2,175,408
January	713,433,167	6%	3,567,166	2,867,241	699,924
February	727,700,566	6%	3,638,503	2,758,000	880,502
March	741,970,331	6%	3,709,852	2,452,635	1,257,216
April	758,747,391	6%	3,793,737	4,004,620	(210,883)
May	773,479,174	6%	3,867,396	5,399,377	(1,531,981)
June	814,258,071	6%	4,071,290	(1,350,572)	5,421,862.36
Total			43,153,519	28,261,440	14,892,078.66

COAST Response:

As per the policy of COAST Trust, it is 6% interest will be given to the member of the organization on their monthly savings balance and this amount will be at the end of every fiscal year but not in monthly basis [Ref: 6.1.3 (Ka, Kha, Ga)]. Interest expenses has been calculating on monthly basis only for monitoring the trend of income and expenditure of the branches. Apart from this, the interest has been distributed to all regular members properly. Mentioned that PKSf and MRA regularly check the calculation during their visit and during report checking.

3. **Taka 979,990 were overstated as principal outstanding.**

During our verification we observe that outstanding principal as per loan statement of Mutual Trust Bank was shown Taka 205,639,375 as on 30-06-2019 but COAST Trust Microfin System generated ledger shows Taka 206, 619, 365 as on 30-06-2019 with an overstated amount of Taka 979,990. Details is given below:

SL. No	Name of Party	Date	As per COAST Trust (A)	As Per Statement (B)	Difference (A-B)
1.	Mutual Trust Bank Ltd.	30-06-2019	206,619,365	205,639,375	979,990

COAST Response:

It is quite difficult to calculate the actual principal and interest amount since bank itself does not follow their loan schedule. Because, during the time of loan repayment, the bank usually re-calculate their calculation both for principal and interest and as a result it does not comply with the loan schedule which was given at the time of loan receiving. However, we will sit with concern bank(s) to minimize the gap. Moreover, it is not clear to us how HYC has calculated the principal amount Tk.205,639,375/-.

4. **Non-Compliance of The Trust Act 1982.**

As per the provisions of section 20 of The Trust Act 1882 refers that the Provident fund should be invested in Government securities approved under this section. On our verification we observed that an accumulated fund amounting to Taka 16,000,000 of Cost Trust Employees provident has been invested in Microfinance under Coast Trust violating the provisions of section 20 of The Trust Act 1882.

COAST Response:

COAST Staff provided fund is recognized by the Government and it has separate identity and as well as it's govern by the separate governing body (PF Trustee Board). The loan has been providing to MF as per approval of the board of PF and COAST. It has been practicing since long and the MRA and PKSf is well aware about this. We did it due to shortage of MF loan fund for expanding new MF branches and also for the benefit of the staff. Because from MF, the PF is getting more profit than bank and savings certificate and on the other hand it is secured because when PF needs fund then instantly PF can collect it from MF. Whereas, it would be hard to get instant money from bank even from savings certificate since it takes time to encash the amount from bank and savings certificate and does not provide committed interest because of its pre-matured encashment.

5. Non-Compliance of Bangladesh Labor Act-2006.

As per Bangladesh Labor Act-2006, Section 125, Sub-Section 2(K), deduction shall be made from the salary of an employee with the approval of the Government. On our verification we observe that Staff Welfare Fund was deducted from salary of the employees without the approval of Government for an aggregate amount of Taka 10,000,000.

COAST Response:

We are drawing attention of the auditor at Section-2 and Sub-section 2(k) of the labor law where it's clearly mentioned that, "Deductions from the wages of a worker shall be made only in accordance with the provisions of this Act, and may be of the following kinds only, namely"

After that the sub-section 2(k) stated that: "deductions, made with the written authorization of the workers for the contribution to any fund or scheme constituted or framed by the employer, with the approval of the Government, for the welfare of the workers or the members of their families or both"

Mentioned that we are not deducting salary from any staff, this is the contribution of an employee in the Welfare fund as per written statement of concern staff. It is one sort of saving scheme for the staff, which is completely refundable with profit to them. It is approved by the Board of COAST and is governed by the approved staff welfare policy.

6. Noncompliance relating to insurance services of Microcredit Regulatory Authority Rules 2010

As per rule 25 of Microcredit Regulatory Authority Rules 2010 "(1) The Microcredit Organization may offer Insurance services to its Clients. (2) For the Insurance services mentioned in sub-clause (1) the Microcredit Organization will provide to the Authority a complete description of the service, the applicable fees or premium to be realized from the Client and the settlement of claims and the financial solvency of the Microcredit Organization". On our verification we observe that Coastal Association for Social Transformation (COAST) Trust has created an Emergency fund (Loan insurance) for amounting to BDT 88,723,240 as per section 8.1 and 8.2 of Microcredit Activity Manual of Coast Trust Bangladesh but no report on description of the service, the applicable fees or premium to be realized from the client and the settlement of claims and the financial solvency of the Microcredit Organization has not been informed to authority. Detailed of the emergency fund are as follows:

Emergency fund (Loan insurance)	BDT 2019	BDT 2018
Balance as at 01 July 2018	71,859,805	55,482,600
Add: Realized during the year	37,284,018	33,816,316
	109,143,823	89,298,916
Less: Return during the year	20,420,583	17,439,111
Less: Adjustment with Fund (Action Aid Period)	-	-
	20,420,583	17,439,111
Balance as at 30 June 2019	88,723,240	71,859,805

COAST Response:

COAST Trust has started the said insurance service with their own capacity and management, every organization in this country those are operating micro credit activities they have their own loan insurance service and each organization is operating this service with different name and title. Regarding submission of description, COAST Trust is registered under micro credit regulatory authority and the authority of MRA is monitoring our activities in regular basis and we are submitting all required documents to MRA in timely manner.

B. Money laundering compliances of MRA:

The Director has informed the board that COAST has been following the Money Laundering Act-2015 (amendment) properly. The issue regarding money laundering, terrorist financing, smuggling and illegal drug issues have been discussion in each group meeting as well as staff meeting. The group members have invested their loan at right schemes. From July'19-Aug'19 (02m) total loan disbursed Tk.61.27 Cr, Savings collection Tk.13.03 Cr, Loan Outstanding Tk.223.72 Cr and Members Savings Balance was Tk.83.52 Cr. He mentioned that no any illegal financing has been reported for money-laundering, terrorist financing, smuggling, illegal drug and any other illegal engagements or purpose. The savings fund of borrower also been utilizing properly in MF program and also as FDR. The Director stated that no any suspicious and abnormal transactions have been made within the organization.

C. AoB: Not Applicable.

Having no other discussion, the Chairperson has concluded the meeting with a vote of thanks again.

Prepared by

Approved by

Rezaul Karim Chowdhury
Member Secretary-EC and
Executive Director, COAST

Begum Shamsun Nahar
Chairperson-EC, COAST

September 29, 2019