



LOCAL LOANS & DEVELOPMENT FUND
ANNUAL REPORT AND ACCOUNTS

2011

MINISTRY OF FINANCE AND PLANNING

ANNUAL REPORT - 2011

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LOCAL LOANS & DEVELOPMENT FUND**BOARD OF COMMISSIONERS****(as at 31st December,2011)**

Chairman		
Dr.Nihal Jayathilak	Secretary, Ministry of Local Government and Provincial Councils	
Treasury Representative		
Mrs.Kanthi Gunawardhane	Deputy Director General, Dept. of Public Finance	
Members		
Mr. W.M.M.B.Weerasekara	Commissioner of Local Government	NWP
Mr.W.M.Wickramarathne	Commissioner of Local Government	CP
Mr.Viraj Perera	Commissioner of Local Government	NCP
Mrs. S.J.M.H.C.Samarakoon	Commissioner of Local Government	WP
Mr.M.P.N.M.Wickramasinghe	Commissioner of Local Government	Uva
Mr. Palitha Nanayakkara	Commissioner of Local Government	Sab
Mr.Uthaya Kumar	Commissioner of Local Government	EP
Mr.S.Achchuthan	Commissioner of Local Government	NP
Mr.S.D.Pandikorala	Commissioner of Local Government	SP
Mr.S.W.Gamage	Hon. Ministers Nominee	
Mr. Vajira Swarna Sri Bandara	Hon. Ministers Nominee	
Mrs.H.M.M.Dissanayake	Hon. Ministers Nominee	

**ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR 2011**

**LOCAL LOANS & DEVELOPMENT COMMISSIONERS
(LOCAL LOANS & DEVELOPMENT FUND)**

VISION

“To be a leading financial Institution for Local Level Infrastructure Financing”

MSSION

“To become an autonomous and sustainable Financial Institution providing long term financing for basic infrastructure services and to contribute to the social and economic development of the country.”

OBJECTIVES

Provision of Loan requirements’ at a concessionary rate of interest to any Local Authorities in the country for the purpose of any work of public utility such Local Authority may be authorized by law to undertake. (Granting of Loans restricted only to Local Authorities)

FUNDS

Funds were provided by the Treasury in the form of a long term loan at a concessionary rate of interest. With the commencement of loans recovered under ADB Loan (No.1632 SRI (SF) and ADB Loan (No.2201 SRI (SF)), revolving facilities of funds are available for the purpose of granting of loans.

CORPORATE INFORMATION

ESTABLISHMENT

Local Loans & Development Commissioners is a Statutory Body established under the Local Loans and Development Ordinance No. 22 of 1916 and amended by Ordinance Nos. 6 of 1930, 25 of 1931, 43 of 1938, 21 of 1942, Act No.29 of 1949, Law No.9 of 1974 and Act No. 24 of 1993. The functions of the LL&DF were assigned the Ministry of Finance during the year 2010.

FUNCTIONS

The prime function of LL&DF is to meet the capital investment needs of the Local Authorities namely Municipal Councils; Urban Councils & Pradeshiya Sabha's totaling 335 Nos. It provides Long Term loans at concessionary rates of interest.

REGISTERED OFFICE	No.17 A, Barnes Place, Colombo 07
TELEPHONE	011-2687514
FAX	011-2687513
E-mail	lldf1@sltnet.lk

STRUCTURE OF THE BOARD OF COMMISSIONERS

As per the Sec. 2 of the Local Loans and Development (Amendment) Act No. 24 of 1993, The Board of Commissioners shall consist of at least thirteen members appointed by the Hon. Minister.

- a. Chairman – (ex-officio) - Secretary to the Ministry in charge the of the LL&DF
- b. One member - Nominated by the Minister of Finance
- c. Nine members nominated by the Governor of each Province
- d. Three members nominated by the Hon. Minister by the Ministry in charge.

AUDITORS

External Audit - Department of Auditor General.

Internal Audit - Internal Audit Division - Ministry of Local Government & Provincial Councils.

BANKERS

Bank of Ceylon

STAFF

The following staff was employed by the Fund, as at 31st December 2011.

Chief Executive Officer	01
Assistant Accountant	01
Development Officer's	16
Management Assistant	05
Driver	01
Office Aide	01
Total	25

LOCAL LOANS AND DEVELOPMENT FUND CORPORATE GOVERNANCE

Corporate Governance is the process by which the business operation of the LL&DF is directed to control by the Board of Commissioners. Good Governance is an essential ingredient in corporate success and sustainable economic growth. The Board of Commissioners of Local Loans & Development Fund is committed in maintaining high standards of integrity, accountability, transparency and business ethics in the governance of the company.

THE BOARD OF COMMISSIONERS

Composition and Balance

As per Act, the Board of Commissioners comprises fourteen Commissioners including the Chairman, who posses valuable knowledge and experience in the areas of the institutions operations. None of the commissioners have any dealings with the institution which does not affect their independence in discharging their duties.

Decision Making

The Commissioners meet each month to review routine activities, to decide on policies & matters of significance. The Commissioners review performance & decide strategies to reach the goals of the LL&DF.

The Responsibilities

The Board of Commissioners are responsible for

1. Formulation of business strategies taking into consideration of the LL&DF strength competencies and risks.
2. Implementing and monitoring such strategies.
3. Reviewing and ratifying systems in operation relating to risk management, internal control, code of conduct & compliance with the laws, status & regulations.
4. Reviewing monitoring & ratifying all capital expenditure.
5. Monitoring senior management performance.
6. Ensuring the effective information and audit systems are in the institute.

INDEPENDENT JUDGEMENT

Each commissioner exercises independent judgement in all matters conducted by the board and acts from any undue influence & bias from other parties. Matters considered include making decisions on issues relating to strategy, implementation of such strategies, performance review, resource allocation & standard conduct of business ethics.

CHAIRMAN

The role of the Chairman is distinct & separate which ensures a balance of power within the LL&DF so that no individual has unfettered powers of decision making.

CHAIRMAN'S ROLE

The Chairman provides leadership and strategic direction to the board of commissioners & ensures that all meetings are conducted in a professional manner.

APPOINTMENT TO THE BOARD

There is a clear & transparent procedure for the appointment of commissioners to the board. The respective ordinance & acts defines the appointment.

ACCOUNTABILITY AND AUDIT

As per the recommendations of the National Salaries and Cadre Commission, with the vision of making this Organization a government "C" class Organization, the staff cadre was restructured whilst approval was received from the Department of Management Services. Therefore, arrangements were made to recruit two Deputy Directors to the LL&DF.

MAINTAINING A SOUND SYSTEM OF INTERNAL CONTROL & RISK MANAGEMENT

The Board of Commissioners has implemented a sound system of internal control & risk management to safeguard the investments & the LL&DF assets. The Board is fully aware that internal controls have inherent limitations and do not provide assurance against errors and fraud.

PERIODICALLY REVIEW OF THE ADEQUACY EFFECTIVENESS OF INTERNAL CONTROL

The adequacy & effectiveness of the Internal Controls are periodically reviewed by the Board and the senior management of the LL&DF and the observations are reported to the Board for appropriate action.

FINANCIAL REPORTING

The Board of Commissioners confirm that the financial statements of the institution have been prepared in accordance with the Sri Lanka Accounting Standards. The institution has duly complied with all the reporting requirements of the relevant laws and regulatory authorities. The financial statements of the institution were audited by the Auditor Generals.

GOING CONCERN

Local Loans & Development Fund is continuing its business with a sufficient liquidity position.

STATUTORY OBLIGATIONS

The Commissioners to the best of their knowledge and belief are satisfied that all financial obligations due to the government and to the employees have been duly paid or adequately provided in the financial statements.

RELATIONSHIP WITH OTHER STAKE HOLDERS

Employees

The Board ensures that the vision, goals and objectives formulated by the Board are clearly communicated and understood by all employees. The LL&DF ensures that no persons below the minimum age are offered employment. LL&DF affords opportunities to potential employees regardless of gender race and once recruited would continue and in their carrier path without discrimination.

Regulatory Bodies

The Board ensures that a meaningful relationship is maintained with institutions such as the Treasury, relevant line Ministry and the Department of Inland Revenue. LL&DF operation and activities strictly adhere to the rules, regulations set out by the relevant regulatory and advisory bodies and the Laws of the country.

Environment

The Board is highly committed to the sustainability of the environment & therefore ensures that the LL&DF & persons adhere to the recommended standards so as to protect and promote the eco system.

PERFORMANCE IN THE YEAR 2011

Rs.175 m was allocated in the institutional Budget in 2011 for the purpose of granting loans to the Local Authorities. During the year total Loans granted to 17 Local Authorities were Rs.105 m. Performance is considered as good as its average of 60%. These Loans are repayable during a period of 05-10 years at concessionary rates of interest. Loans granted summary as follows;

YEAR - 2011

	Category	Interest Rate	Amount (Rs.)	No of Projects
1	Construction of Weekly Fair & Economic Centres	7.5%	9,579,000.00	04
2	Construction of Crematoria	7.5%	14,336,000.00	07
3	Establishment of Road Maintenance Unit	9.0%	75,000,000.00	19
4	Construction of Office Buildings	8.0%	92,000.00	01
5	Rural Roads	7.0%	6,700,000.00	01
	Total		105,707,000.00	32

INCOME

The fund has earned a Gross Income of Rs.27.6m on its own operations and Rs.77.1 m from ADB Loan No.2201 (LGIIP). Further Rs.5.5 m has been earned by investing revolving funds, in State Banks. The LL&DF occurs net Loss of Rs.49 m, after deducting operational expenses, provision for bad debts, Income Tax provision and provision for Treasury repayments on non-performing Loans under UDLIHP .

REPAYMENT TO THE TREASURY

During the year Capital repayment to the Treasury was Rs.22.9 m. and the interest payment to the Treasury was Rs.23.5 m. for loans obtained under LL&DF and Rs.56.2 m has been paid to the Treasury as capital and Rs.67.2 as interest under UDLIHP. Further under ADB Loan No.899 SRI (SF) Rs.1.1 m has been paid to the Treasury as capital and Rs.8.5 has been paid as interest.

RECOVERIES

Rs.131 m and Rs.49.8 m was recovered being capital and interest due from loans granted by LL&DF. Further Rs.71.7 m and Rs.102.4 m recovered, being capital and interest on ADB Loan No.1632. Rs. 1.1 m and Rs.7.6 was recovered under PCDP as capital and interest during the year.

ASIAN DEVELOPMENT BANK PROJECTS

ADB LOAN No.1632 SRI (SF)

URBAN DEVELOPMENT & LOW INCOME HOUSING PROJECT

LL&DF is the recovery agent of Loan component of the above project implemented by the Ministry of Urban Development. A total of Rs.2,270 m has to be recovered from 27 Local Authorities. While 70 % of the loans are being recovered and the rest is in dispute. Because most of the Market Centers implemented under this project are failures and the others are in dispute.

ADB LOAN No.2201 SRI (SF)

LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT PROJECT

The Asian Development Bank Loan No.2201 SRI (SF) (Local Government Infrastructure Improvement Project), the LL&DF has entered in to a Project Agreement in January 2006 with the ADB, to provide loan and grant component to LAA for improvement of Infrastructure and Service Delivery under five following categories.

1. Community Water Supply
2. Local Authority Roads
3. Solid Waste Management
4. Storm Water Drainage
5. Local Authority Institutional Infrastructure.

Ministry of Local Government & Provincial Councils is the executing agency under this project and LL&DF is implementing agency for Loan disbursement and recovery. US\$ 42.5 m. will be released under component B. This is 100% Loan from the Treasury to Local Loans & Development Fund, repayable in 32 years including a grace period of 8 years, at an interest rate of 1% p.a. during the grace period and 1.5% thereafter.

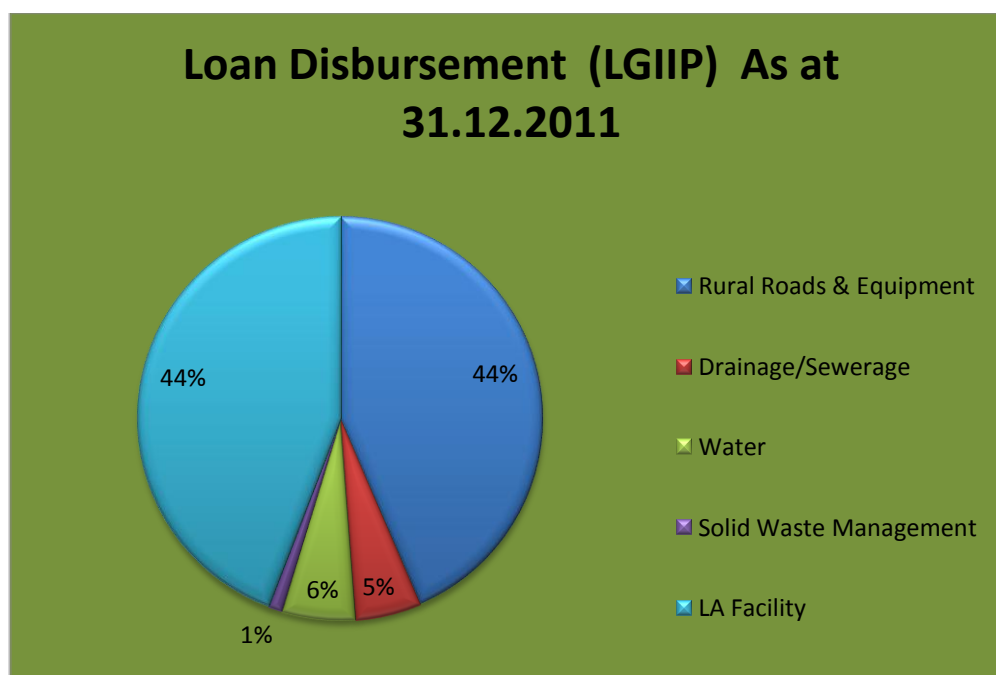
A very attractive grant varying from 40%- 60% is available to LAA. While the rest is a loan (33% - 53%) at the rate of 9% p.a. A heavy risk is given to LL&DF as the grant has to be manage out of the loan interest of 9%.

As subprojects feasibility based on future income generation of the LAs, FLIP and capacity building is an essential element to safeguard LL&DF loan recovery and to mitigate loan default risks involved. At the same time financial status of the LAs has to be improved in order make them sustainable in order for timely repayment of loans. In addition LAs has to be viable organizations to obtain future loans from LL&DF. These are some of the prime objectives of the LGIIP.

ADB Loan No. 2201 SRI (SF)
LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT
PROJECT

Loan and Grant issued under LGIIP as at 31.12.2011

Project	Amount (cumulative) Rs. Million	Amount (year 2011) Rs. Million
Rural Roads & Equipment	1,473.5	469.3
Solid Waste Management	38.5	32.8
Community Water Supply Projects	196.8	60.1
Drainage & Sewerage	177.6	28.1
LA Facility	1,496.5	730.9
Total	3,382.9	1,321.2



REPORT OF THE AUDIT & MANAGEMENT COMMITTEE

FOR THE YEAR 2011

The Audit & Management Committee of the Local Loans and Development Fund is appointed by the Board of Commissioners as per Public Enterprises Circular No PED/31 of 01.07.2005. The Audit & Management Committee consists of Two Non-Executive Directors and Ministry Internal Auditor. The committee chaired by the Treasury Representative to the Board of Commissioners and Superintendent of Audit represent the Auditor General, as an observer. Chief Executive Officer is the convener. The Committee has met quarterly and 04 meetings have been held during the year.

01. REVIEWED EXTERNAL AUDIT REPORT

External Audit Report 2010 was tabled for observation and review. Instructions issued after discussion of the report to LLDF to take action on the following.

- a) Bad debts and non- performing Loans – Asian Development Bank assisted Perennial Crop Development Project (PCDP) and Urban Development and Low Income Housing Project (UDLIHP) (ADB Loan No.899 and 1632)**

The Audit and Management Committee reviewed the activities of Sub Committee which established for Loan recoveries for the said projects and give necessary instructions to enhance the progress of Sub Committee.

- b) OVERDUE LOANS – NORTH AND EAST PROVINCES**

The Loan of Rs.9,102,229.75 were obtained by 22 Local Authorities for 122 projects in North & East provinces prior to year 1980. Due to the civil unrest prevailed in the past 30 years we had difficulties in recovery of these loans.

- c) UNUTILIZED FUNDS**

Special Allocation of Rs.12 m which received from the Treasury to provide a grant component to Local Authorities with the special approval of cabinet of Ministers. Balance of Rs.7,415,800.00 out of the said allocation has been converted as Long Term Loan which repay over 25 years and such approval given by the General Treasury.

02. AMMENDMENT OF LEGAL DOCUMENTS SIGNED WITH LOCAL AUTHORITIES

The Committee strengthens LL&DF Legal documents signed between LL&DF and Local Authorities. Eg – Irrevocable Standing Order Agreement.

03. SOFTWARE FOR LOAN MANAGEMENT

The Audit and Management Committee identifying to implementing “Management Information System” which facilitate strengthen of LL&DF. The required funds supplied by LGIIP.

04. ADB Loan No.2201 SRI (SF) – LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT PROJECT

Under this project US\$ 42.5m. (SDR 24.6 million) will be released under Component B as a 100% Loan from the Treasury to Local Loans and Development Fund, repayable at an interest rate of 1% p.a during the 8 years of grace period and 1.5% p.a thereafter.

Fund disbursements as at 2011.12.31

Province	ADB Funds (Rs.)	Treasury Funds (Rs.)	Total (Rs.)
North Central	321	93	414
Central	347	114	461
North Western	569	170	739
Sabaragamuwa	247	81	328
Southern	283	81	364
Uva	182	54	236
Western	341	109	450
Eastern	109	34	143
Northern	189	59	248
Total	2588	795	3,383

The Project Management Unit (PMU) holds the responsibility of issuing and recovery of Loans. The value of total disbursements are Rs.3,383 Mn. The value of which can recovered as Loan is Rs.1,303 Mn. balance part treated as grant.

5. SCHEME OF RECRUITMENT AND PROMOTION SCHEME

As per the recommendation of National salaries and cadre Commission new promotional and recruitment procedure approved by the Management Service Department on 23.02.2011. Therefore existing staff have been absorbed to the new cadre and pay arrears salary in according to the Management service Circular No.30 (MSD 30). Apart from that LL&DF take steps to recruit 02 new Deputy Directors in accordance with new Promotional and recruitment procedure.

COMMITTEE MEMBERS - YEAR 2011

Ms.Kanthi Gunawardhane, Treasury Representative	Chairperson
Mr.W.S.S.Bandara, Hon. Ministers Nominee	Member
Ms.M.W.A.R.P.Wijesinghe, Internal Auditor	Member
Mr.B.W.D.Lasantha , Auditor General's Dept.	Observer

**LOCAL LOANS AND DEVELOPMENT FUND
LOAN COMMITTEE REPORT – 2011**

Members of the loan committee for the year are as follows;

Mr. S.W. Gamage	Chairman
Ms. Kanthi Gunawardhane	Member
Mr. Vajira Swarna Sri Bandara	Member
Ms.H.C.Samarakoon	Member
Mr. F.Johnson	Member

Loan committee has the power to recommend loans to all the Local Authorities. The Committee has met monthly. During the year, 16 subproject loans were recommended to the value of Rs. 130 million.

**LOCAL GOVERNMENT INFRA STRUCTURE IMPROVEMENT PROJECT
(ADB LOAN NO 2201)**

Year under review 10 subproject loans approved to the value of Rs 221 Million. In addition value of 8 subproject loans increased by Rs .17 million.

OBTAINING A IRREVOCABLE STANDING ORDER ON SUBPROJECT LOANS

Last year loan committee introduced a new form of a standing order known as irrevocable standing order. This was also included as a provision in the Loan agreement. Outcome of this, further guarantees the flow of loan instalments, finally the recovery of the loan.

Loan Committee decided to change the past procedure of granting loans, but considering the repayment capacity, especially emphasis on new additional funds, future fund generation capabilities of LAs due to implementation of the subprojects. Loan committee decided to take intelligent and appropriate decisions taking into consideration not only the future cash flows but also the provincial infrastructure development considering the impacts on environment. To make sure the repayment of Loan, Loans Committee decided to considered the repayment ability and progress of repayment strongly.

**RESTRUCTURE AND RESCHEDULE OF LOANS TO RECOVER THE
DEFAULT LOANS**

Loan committee not only recommends new loans but also interested on recovery of defaulted loans on subprojects by the LAs. Committee studied these issues carefully considering the repayment capacity of LAs, restructure or reschedule the loans satisfactorily to the benefit of the LL&DF.

The default loan of Anuradhapura MC which was long outstanding and even referred for arbitration was successfully settled. Bank standing order system was used to recover the outstanding loan of Rs 8.85 million in instalments. PCDDP unpaid loan of Rs 60 million by Kandy MC restructured and agreed to repay by instalments. Unpaid loans of Matara and Badulla MC are under consideration. Loan Committee actions on recoveries increased the financial status and sustainability of the LL&DF.

RESCHEDULING PROGRESS DURING THE YEAR 2010 AND 2011

Local Authority	Project	Loan Amount Rs.	Progress during the year 2011		Default period
			Capital	Interest	
Puttlam U.C	Storm Water Drainage (UDLIHP)	27,835,510.04	463,924.00	-	Since - 2004 IV Quarter
Kandy M.C	Market (PCDP)	60,922,475.64	1,447,472.57	6,779,557.38	Since - 1999/ IV Quarter
Kandy M.C	Market (PCDP – Interest Loan)	21,948,184.67	2,743,523.10	-	
Gampola U.C	Market (UDLIHP)	82,500,000.00	199,049.22	687,500.00	Since - 2005 IV Quarter
Gampola U.C	Market (UDLIHP – Interest Loan)	33,000,000.00	-	-	Since - 2005 IV Quarter
Anuradhapura M.C	Area Upgrading (UDLIHP)	8,856,431.40	374,261.78	810,651.60	Since - 2006- II Quarter
Anuradhapura M.C	Area Upgrading (UDLIHP – Interest Loan)	4,515,855.00	351,233.12	-	Since - 2004- II Quarter
Matara M.C	Purchase of a Tractor (UDLIHP)	776,216.87	314,065.10	316,219.01	Since - 2006- II Quarter
Matara M.C	Public Toilet (UDLIHP)	404,006.14	252,941.72	196,834.52	Since - 2004- II Quarter

Hakmana P.S	Crematorium (LL&DF)	3,000,000.00	160,318.02	219,563.46	Since - 2002 II Quarter
Hakmana P.S	Crematorium (LL&DF interest Loan)	1,407,704.53	129,037.57	-	Since - 2002 II Quarter
Negambo M.C	Storm Water Drainage (UDLIHP)	58,054,244.45	4,290,527.83	7,022,492.91	Since - 2010- I Quarter
Negambo M.C	Road Development (UDLIHP)18,872.87	63,378,006.22	4,683,983.09	7,666,478.18	Since - 2010- I Quarter
Hatton Dickoya U.C	Public Toilet 26,724.78 (UDLIHP)	1,698,867.70	18,872.87	33,977.35	Since - 2009- III Quarter
Hatton Dickoya U.C	Public Toilet (UDLIHP)	320,697.37	26,724.78	-	Since - 2009- III Quarter
Hatton Dickoya U.C	Area Upgrading (UDLIHP)	10,971,637.11	107,572.74	218,718.78	Since - 2009- III Quarter
Hatton Dickoya U.C	Area Upgrading (UDLIHP)	2,082,063.25	173,505.27	-	Since - 2009- III Quarter
Total		381,671,900.39	15,737,012.78	23,951,993.19	

FOLLOWING LOANS WHICH ARE ON NEGOTIATION STAGE TO BE RESCHEDULE DURING THE YEAR 2012.

1. Seethawakapura Urban Council
2. Matale Municipal Council
3. Gampola Urban Council
4. Dambulla Municipal Council

Loans Committee not only decided to focus on Loan grant, recovery of Loan and total volume of Loans but also they concerned about infrastructure development of Local Authorities and enhancement of effectiveness of LL&DF.

FINANCIAL STATEMENTS AND INFORMATION

LOCAL LOANS & DEVELOPMENT COMMISSIONERS

Local Loans & Development Fund
Annual Report 2011

(Local Loans & Development Fund)

INCOME & EXPENDITURE STATEMENT

FOR THE YEAR ENDED 31.12.2011

	Grand Total	2010
Revenue	Rs.	
Interest Income on Loans Granted	244,596,027.07	207,817,206.47
Less: Interest on Treasury Loans	(164,019,863.19)	(157,702,050.76)
Gross Income	80,576,163.88	50,115,155.71
Investment Income		
Interest on Treasury Bills	1,341,976.81	
Interest on Savings Deposits	1,114,389.08	1,295,153.39
Interest on Fixed Deposits	3,852,632.27	4,730,540.29
Less:- With Holding Tax - none refundable	(11,430.64)	(91,187.49)
Other Income		
Received in Suspense	2,194,818.48	19,236,156.76
Penalty Interest	1,102,356.55	5,118.47
Other Income	1,269,216.52	161,238.66
Total Income	91,440,122.95	75,452,175.79
Less: Administrative Expenses	(15,542,869.50)	(14,297,694.72)
Net Grant amortization	(121,674,545.33)	(65,868,283.45)
Net Income	(45,777,291.88)	(4,713,802.38)
Less: Payments to Consolidated Fund	-	-
Provision for bad debts (Interest receivable)	-	-
Income Tax paid	(1,298,615.38)	(4,623,817.09)
Surplus before tax	47,075,907.26	(9,337,619.47)
Provision for Income Tax	(2,000,000.00)	(5,650,000.00)
Surplus after provision for tax c/d	(49,075,907.26)	(14,987,619.47)
Accumulated Fund B/F	51,517,666.88	66,505,286.35
Accumulated Fund C/F	2,441,759.62	51,517,666.88

LOCAL LOANS & DEVELOPMENT COMMISSIONERS

(Local Loans & Development Fund)

BALANCE SHEET

	As at 31.12.2011	As at 31.12.2010
	RS	RS
ASSETS		
Fixed Assets	<u>5,771,395.45</u>	<u>4,142,493.49</u>
NON CURRENT ASSETS		
Debtors	3,822,333,596.61	3,440,230,793.50
Grant given to LA - LGIIP	1,728,035,928.71	1,115,536,735.03
Interest receivable in suspense	407,234,119.49	361,130,599.86
Loan Interest Receivables	20,262,786.18	21,469,058.51
Staff Debtors	<u>3,362,716.39</u>	<u>3,369,148.49</u>
	<u>5,981,229,147.38</u>	<u>4,941,736,335.39</u>
CURRENT ASSETS		
Debtors	49,203,610.77	-
Loan Interest Receivables	97,409,609.90	82,351,417.48
Refundable Deposits	40,051.61	40,051.61
Investment Income Receivable	367,314.75	122,170,370.22
Cash & Cash Equivalent	<u>214,224,646.04</u>	
	<u>361,245,233.07</u>	<u>204,561,839.31</u>
TOTAL ASSETS	<u>6,348,245,775.90</u>	<u>5,150,440,668.19</u>
EQUITY & LIABILITIES		
Accumulated Fund	2,441,759.62	51,517,666.88
NON CURRENT LIABILITIES		
Borrowings from General Treasury	2,465,952,534.06	2,546,806,750.54
Borrowings from ADB - LGIIP	2,589,283,200.57	1,591,550,238.80
GOSL Grant - LGIIP	660,395,559.53	412,257,789.31
Interest Payable - PCDP	-	-
Provision for Gratuity	1,333,785.00	1,111,682.50
Interest in suspense	407,234,119.49	361,130,599.86
Retention Payable to LA	4,053,650.04	4,041,447.29
Govt.Assistance (Capital) - LGIIP	<u>5,274,046.06</u>	<u>3,627,288.25</u>
	<u>6,133,526,894.75</u>	<u>4,920,525,796.55</u>
CURRENT LIABILITIES		
Interest payable to the General Treasury	181,235,817.00	151,360,772.40
Suspense Received	1,424,064.88	2,093,511.30
Provisions & Accrued Expenditure	8,026,046.27	10,721,138.00
Current Liability to LGIIP (C.A/C op)	<u>21,591,193.38</u>	<u>14,221,783.06</u>
	<u>212,277,121.53</u>	<u>178,397,204.76</u>
	<u>6,348,245,775.90</u>	<u>5,150,440,668.19</u>

.....
Dr.Nihal Jayathilake

Chairman - Local Loans and Development Fund

Secretary – Ministry of Local Government and Provincial Council

.....
D.U.S. Wickramaarachchi
Chief Executive Officer

Local Loans & Development Fund

Local Loans & Development Commissioners
(Local Loans & Development Fund)
Cash Flow Statement as at 31st December

	2011	2010
	Rs	Rs
Cash flow from Operating Activities		
Profit/(Loss) before Taxation	(47,075,907)	(9,337,617)
Adjustments for		
Depreciation	1,286,720	174,977
Provision for Bad Debts	-	-
Taxation	1,298,615	4,623,817
Provision for Gratuity	222,103	(185,003)
Audit Fees	360,000	(10,742)
Net amortization	121,674,545	65,868,283
Office Rent	<u>600,000</u>	<u>600,000</u>
Operating Profit/(Loss) before change in working capital	78,366,076	61,733,715
(Increase)/Decrease in Staff Debtors	6,432	610,864
(Increase)/Decrease in Interest Receivables	(59,700,604)	(99,847,947)
(Increase)/Decrease in Investment Income Receivables	(367,315)	-
(Increase)/Decrease in Deposits and Prepayments	-	-
Increase/(Decrease) in Interest Payables (Treasury)	29,875,045	18,073,323
Increase/(Decrease) Current Account (LGIP)	7,114,576	
Increase/(Decrease) in Accrued Expenses	(5,092)	(50,866)
Cash generated from Operating Activities	55,289,118	(19,480,911)
Income Tax paid	<u>(6,948,615)</u>	<u>(11,128,817)</u>
Net Cash generated from Operating Activities	48,340,502	(30,609,728)
Cash flow from Financing Activities		
Capital Repayment to General Treasury	1,165,016,516	854,689,520
Retention Payable to LA	12,203	4,041,447
Interest in Suspense	45,434,073	

Govt assistance (capital)	<u>1,646,758</u>	<u>-</u>
Net Cash flow from Financing Activities	1,212,109,549	858,730,967
Cash flow from Investing Activities		
Purchase of Equipment	(2,915,622)	(110,750)
Loan Release	(654,526,099)	(358,596,261)
Capital Received	223,219,684	-
Grant Given to LAA	<u>(734,173,738)</u>	<u>(499,098,910)</u>
Net Cash flow from Investing Activities	(1,168,395,775)	(857,803,921)
Net Increase/(Decrease) in Cash and Cash Equivalents	92,053,976	(29,684,680)
Cash and Cash Equivalents at the beginning of the Year	<u>122,170,368</u>	<u>151,855,050</u>
Cash and Cash Equivalents at the end of the Year	<u>214,224,645</u>	<u>122,170,370</u>
Analysis of the Cash and Cash equivalents at the end of the year		
Cash at Bank and in Hand	(17,240,788)	36,856,662
Cash at Bank and in Hand -LGIP	-	18,939,458
Savings Deposits	104,918,102	20,171,716
Fixed Deposits	126,547,331	46,202,534
	214,224,645	122,170,370

LOCAL LOANS AND DEVELOPMENT COMMISSIONERS
(Local loans & Development Fund)
SUMMARY OF CASH A/C Bank of Ceylon Bambalapitiya
FOR THE YEAR ENDED 31.12.2011

31.12.2010	RECEIPTS	Rs.	Rs. cts	31.12.2010	PAYMENTS	Rs.	Rs. cts
					Treasury Bills		40,000,000.00
(7,228,053.00)	Balance B/F 01.01.2011	-	13,223,135.71	10,000,000	Fixed Deposits		10,000,000.00
	Treasury Borrowings				LOANS		
	INTEREST			6,184,000.00	Municipal Councils	60,000,000.00	
8,499,907.00	Municipal Councils	10,116,779.93	-	21,532,000.00	Urban Councils	12,500,000.00	
9,160,103.00	Urban Councils	8,019,504.48	-	99,379,000.00	Pradeshia Sabhas	33,657,000.00	106,157,000.00
31,061,352.00	Pradeshia Sabhas	30,750,652.01	-		Payments To G.Treasury		
1,061,352.00	N.W.S. & D.B.	1,012,211.91	49,899,148.33	22,592,500.00	Loan Repayments to the Treasury	22,963,289.99	
			-	25,165,824.00	Interest Payments to the Treasury	23,584,885.88	
	CAPITAL				Consolidated Fund	-	46,548,175.87
24,504,837.00	Municipal Councils	30,280,733.60	-		Special Grant for LAA	-	
19,640,259.00	Urban Councils	18,931,527.12	-	11,901,286.00	Administration Expenses		11,610,539.43
75,794,656.00	Pradeshia Sabhas	82,039,026.40	-	110,000.00	Festival Advance		165,000.00
547,354.00	N.W.S. & D.B.	515,296.00	131,766,583.12	11,123,817.00	Income tax		6,948,615.38
	Tresury Bill Cancellation		40,000,000.00	243,333.00	Staff Bonus		

	Interest From T.B		618,431.00	1,607,677.00	Staff Loans		1,009,782.72
48,887,298.00	Cash Transfers(UDLIHP)		55,000,000.00	175,853.00	Cash Transfers(UDLIHP)	175,852.76	55,673,667.47
	Cash Transfers(P.C.D.P.)		654,178.91	458,764.00	Cash Transfers(LGIIP)	-	344,120.35
200,072,803.00	Cash Transfers(Saving Acc.)		219,735,318.87	191,717,565.00	Cash Transfers(Saving Acc.)	458,763.53	227,628,246.58
466,945.00	Interest From F.M.A		570,743.39				
315,863.00	Interest From F.D		960,394.52		Cash Transfers		
6,200,000.00	Advance Payment Received for LA		-	563,171.00	Others		1,063,443.45
	LGIIP		960,701.47	5,124,000.00	Advance Payment for LA		
1,836,999.00	Others		2,876,203.23	13,233,136.00	Balance c/d 31.12.2011		9,116,247.30
421,101,926.00	TOTAL		516,264,838.55	421,101,926.00	TOTAL		516,264,838.55

**LOCAL LOANS & DEVELOPMENT COMMISSIONERS
(LOCAL LOANS & DEVELOPMENT FUND)
SUMMARY OF CASH A/C BANK OF CEYLON BAMBALAPITIYA
URBAN DEVELOPMENT & LOW INCOME HOUSING PROJECT (UDLIHP)
FOR THE YEAR ENDED 31.12.2011**

2010	RECEIPTS	Rs. cts	2010	PAYMENT	Rs. cts
14,154,196	Balance b/f 01.01.2011	21,287,458.84	-		
93,367,798	Loan Interest Receipts	102,448,358.82	50,000,000	Fixed Deposits	50,000,000.00
62,116,404	Loan Capital Receipts	71,789,682.68			
	Penalty		47,800,000	Cash Transfer	55,000,000.00
4,343,194	Fixed Deposits Interest	2,263,970.23	56,284,025	Capital Payments to the Treasury	56,284,024.99
740,393	F.M. Deposits Interest	1,070,330.63	-	With Holding Tax	
	Cash Transfer LLDF	55,000,000.00	71,484,331	Interest Payments to the Treasury	67,277,115.15
215,077,406	Cash Transfers (F.M.A..)	160,244,433.50	215,887,960	Cash Transfers (F.M.A..)	237,100,972.44
65,000,000	Fixed Deposits (Withdrawal)		877,579	Expenses	865,881.85
8,821,994	Others	231,962.00	21,287,459	Balance c/d- 31.12.2011	(52,191,797.73)
463,621,385	TOTAL	414,336,196.70	463,621,354	TOTAL	414,336,196.70

LOCAL LOANS AND DEVELOPMENT COMMISSIONERS
 (Local loans & Development Fund)
SUMMARY OF CASH A/C CENTRAL BANK OF SRI LANKA (P.C.D.P.)
 FOR THE YEAR ENDED 31.12.2011

31.12.2010	RECEIPTS	Rs. cts	31.12.2010	PAYMENT	Rs. cts
270,314	Balance b/f 01.01.2011	2,346,517.62	175,089	Loan Instalment Payment to General Treasury	1,156,901.50
8,189,643	Loan Interest Receipts	7,652,060.94	6,041,909	Interest Payment to General Treasury	8,493,480.79
103,559	Loan Capital Receipts	1,152,901.50			
			2,346,518	Balance c/d 31.12.2011	1,501,097.77
8,563,615	TOTAL	11,151,480.06	8,563,516	TOTAL	11,151,480.06

NOTES TO THE BALANCE SHEET AS AT 31ST DECEMBER 2011

1 Fixed Assets

Description	Cost as at 01.01.2011	Additions/ (Disposals)	Cost as at 31.12.2011	Depreciation			W.D.V. As at 31.12.2011
				As at 01.01.2011	For the year	As at 31.12.2011	
Office Equipment (S.08)	1,887,547.83	168,648.33	2,056,196.16	1,372,342.59	186,504.19	1,558,846.78	497,349.38
Assets at PMU-LGIIP (Sch. 30)	4,172,263.66	2,840,600.29	7,012,863.95	638,601.66	1,100,216.22	1,738,817.88	5,274,046.07
Total	6,059,811.49	3,009,248.62	9,069,060.11	2,010,944.25	1,286,720.41	3,297,664.66	5,771,395.45

Notes to the Balance Sheet as at 31st December 2011

	2011	2010
2. Debtors		
		79,804,268.16
Municipal Councils	99,229,914.56	
Urban councils	92,845,901.25	112,106,607.53
Pradeshiya Sabhas	343,427,121.09	402,878,727.67
N.W.S. & D.B.	10,223,245.06	10,738,541.06
Perennial Crop Development Project	72,001,574.14	73,154,475.64
Urban Dev. Low Income Housing Proj.	1,860,622,453.05	1,950,574,905.27
LGIP Loan to LAs	1,343,983,387.46	810,973,268.17
	<u>3,822,333,596.61</u>	<u>3,440,230,793.50</u>

	2011	2010
3. Grant Given to LA - LGIP		
Grant given to LA's 2011	2,079,781,901.60	1,270,345,565.52
Less – Grant amortized 2011	(351,745,972.89)	(154,808,830.49)
	<u>1,728,035,928.71</u>	<u>1,115,536,735.03</u>

	2011	2010
4. Interest in Suspence		
Non Performing Loans - LL&DF	16,534,087.50	15,049,279.20
Non Performing Loans - PCDP	22,733,319.45	23,488,137.93
Non Performing Loans - UDLIHP	367,966,712.54	322,593,182.73
	<u>407,234,119.49</u>	<u>361,130,599.86</u>

	2011	2010
5. Interest Receivables – Non Current		
Loan Interest Receivables	14,317,351.36	13,726,641.27
Interest Receivables from - UDLIHP	20,745,940.86	22,542,923.28

Interest receivables - PCDP	8,461,973.78	8,461,973.78
Less – Prov. for bad debts	(23,262,479.82)	(23,262,479.82)
	<u>20,262,786.18</u>	<u>21,469,058.51</u>

Notes to the Balance Sheet as at 31st December 2011

	2011	2010
6. Staff Debtors		
Distress Loan	3,338,716.39	3,348,148.49
Festival Advance	24,000.00	21,000.00
	<u>3,362,716.39</u>	<u>3,369,148.49</u>

	2011	2010
7. Debtors - Current		
Municipal Council	10,168,347.99	
Urban Council	12,829,179.16	
Pradeshiya Sabha	9,391,808.82	
Urban Dev. Low Income Housing Project	16,814,274.80	
	<u>49,203,610.77</u>	

	2011	2010
8. Interest Receivables - Current		
Loan Interest receivables	5,408,756.98	4,790,558.70
Interest receivables from - UDLIHP	15,312,757.24	24,505,492.08
Interest receivables from - PCDP	6,600.00	-
Interest receivables from - LGIIP	76,131,812.38	53,310,202.12
Interest receivables from - LGIIP	594,683.30	-
Less – Provision for Bad debts	-	-
	<u>97,409,609.90</u>	<u>82,606,252.90</u>

	2011	2010
9. Cash & Cash Ewuivelent		

Fixed Deposits	126,547,331.94	46,202,533.69
Saving Deposits	104,918,102.15	20,171,716.38
Cash at Bank	(17,240,788.05)	55,796,120.15
	<u>214,224,646.04</u>	<u>122,170,370.22</u>
	2011	2010
10. Accumulated Fund		
B/F 01/01/2011	51,517,666.88	66,505,286.35
Year 2011	(49,075,907.26)	(14,987,619.47)
	<u>2,441,759.62</u>	<u>51,517,666.88</u>

	2011	2010
11. Borrowings from the Treasury		
LA's Loan Funding	305,733,035.22	321,280,525.21
Urban Development & Housing Project	2,088,209,924.70	2,144,493,949.69
Perennial Crop Development Project	72,009,574.14	73,166,475.64
Treasury grant for LAA	-	7,865,800.00
	<u>2,465,952,534.06</u>	<u>2,546,806,750.54</u>

	2011	2010
12. Borrowing from ADB - LGIIP		
2009/ 2010	-	833,984,275.18
2011	2,589,283,200.57	757,565,963.62
	<u>2,589,283,200.57</u>	<u>1,591,550,238.80</u>

	2011	2010
--	-------------	-------------

13. GOSL Grant - LGIIP		
GOSL Grant - Received	793,613,852.09	470,213,484.80
Less – Grant Amortized (2010)	(133,218,292.56)	(57,955,695.49)
	<u>660,395,559.53</u>	<u>412,257,789.31</u>

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	2011	2010
14. Staff Grativity		
Provision B/F	1,111,682.50	725,442.50
Provision for the year	222,102.50	386,240.00
	<u>1,333,785.00</u>	<u>1,111,682.50</u>

	2011	2010
15. Govt. Assistance (capital) - LGIIP		
Assets for LGIIP - Cost	7,012,863.95	4,265,889.91
Less – Amortization of Govt. Assistance	(1,738,817.89)	(638,601.66)
	<u>5,274,046.06</u>	<u>3,627,288.25</u>

	2011	2010
16. Interest Payables to General Treasury		
Interest Payables on UDLIHP	181,235,817.00	135,927,000.00
Interest Payables on PCDP	-	-
Interest Payables on LGIIP	-	15,433,772.40
	<u>181,235,817.00</u>	<u>151,360,772.40</u>

	2011	2010
17. Provisions & Accrude Expences		
Audit Fees	565,813.00	205,813.00
Income tax	2,000,000.00	5,650,000.00
Office Rent	5,400,000.00	4,800,000.00
Accruide Expences	60,233.27	65,325,00
	<u>8,026,046.27</u>	<u>10,721,138.00</u>

ACCOUNTING POLICIES

REPORTING ENTITY

Local Loans and Development Fund (LL&DF) is a statutory body established as a legal entity by the Local Loans and Development Ordinance No. 22 of 1916. The consolidated financial statements for the year ended 31 December 2011 cover its sub activities for which separate segment income statements are prepared. LL&DF own operation, Urban Development and Low income Housing Project (UDLIHP), Perennial Crop Development Project (PCDP) and Local Government Infrastructure Improvement Project (LGIIP) are the segments of the consolidation.

LGIIP activities at LL&DF is being operated from year 2008. Accounts and the financial results of the years 2011 has been consolidated.

STATEMENT OF COMPLIANCE

The Balance Sheet, Income Statements and Cash Flow statements have been prepared in accordance with the Sri Lanka Public Sector Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka.

BASIS OF PREPARATION

The financial statements are prepared under historical cost convention and applied consistently without adjustments made for inflation, but depreciation for fixed assets.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Sri Lanka rupees to the nearest cts.

MATERIALITY AND AGGREGATION

Each material items are presented separately aggregating with amounts of similar nature or function.

BASIS OF CONSOLIDATION

Sub activities of LL&DF own operation, Urban Development Low Income Housing Project (UDLIHP) Perennial Crop Development Project (PCDP) and Local Government Infrastructure Improvement Project (LGIIP) are identified as segments where direct income and expenditure are processed separately and consolidated at the year end. Assets and liabilities are also consolidated in the Balance sheet.

LGIP activities assigned to LL&DF (Component B of the project) are still been operated by a Project Management Unit (PMU) and financial statements are prepared separately at PMU. Information in all asset and liability accounts, except operational expenses and disbursements on component A activities by which assets and liabilities of LL&DF are not affected, are consolidated in the LL&DF accounts.

Assets purchased and directly transferred to LL&DF by the project and loan and grant and there transaction results in respect of component B of the project have been taken into segment financial statements before consolidation.

CASH AND CASH EQUIVALENT

Cash and cash equivalents include cash in hand, balance with bank including fixed deposits and savings deposits. They are brought to accounts at the face value.

AMORTIZATION OF CREDIT AND DEBIT GRANTS

Credit grants represents the GOSL fund received from the LGIP Project together with the ADB loan which are to be utilized for disbursements to Local Authorities(LAs.) under component B of the project. Debit grant represent the grant disbursed to LAs. with the loan component. Debit grant treated as an expenditure is deferred and amortized in systematic way to the income statement throughout the years of interest received from the activity. Credit grant is also amortized in the same system. In this arrangement, the amalgamated before tax profit of LL&DF should not be fallen to less than 5% of the before tax and net amortization profit.

NON-PERFORMING LOAN

Long dues of the loan capital/or interest are classified as non-performing and interest are accrued in an interest suspense account and will be reviewed continuously in accordance with the Sri Lanka Public Sector Accounting Standard 23 “ Revenue recognition “

PROVISION FOR LOAN LOSSES

Specific provision for loan losses & doubt full recoveries are made where necessary, on a case by case.

REVENUE RECOGNITION ON NON PERFORMING LOANS

When an advance / loan is classified as non- performing, interest income ceases to be recognized and is taken to income only on a cash basis.

DEPRECIATION

Depreciation is provided on straight line basis over the estimated life of the class of assets as follows.

Fittings	25%
Office equipment	20%
Office furniture	5%
Vehicle	20%

Depreciation is not provided in the year of purchase of the assets.

PROPERTY PLANT AND EQUIPMENT

Property plant and equipment are recorded at cost of purchase or construction or valuation together with any incidental expenses thereon less accumulated depreciation. The cost of constructed assets includes all expenditure attributable to bring the assets to the working condition. In case of contract construction, total contract price paid is capitalized.

CAPITALIZATION OF LOANS.

The interest payable on advance/loan disbursed to LAs during the construction period of sub project is capitalized to the loan and scheduled for installment payment with the principle amount. The day of final interim payment (before retention) is the cut off day of such capitalization. The principle amount includes the retention too.

LIABILITIES

Bills payable and other liabilities includes all financial liabilities , interest payable to the Treasury, fees and expenses payable. These are recorded at the cash value to be realized when settled.

GRATUITY

Provision is made by LL&DF to the gratuity of permanent employees on a percentage of employees gross salary.

PROVIDENT FUND

LL&DF contribute to the Employees' Provident Fund 12% and 8% by employees' gross salary.

TRUST FUND

LL&DF contributes 3% of gross salary to the Employees' Trust Fund.

INCOME STATEMENT

INTEREST INCOME

Interest receivable is recognized on accrual basis. Interest on non-performing loans and advances is accumulated in a suspense account and recognized on cash basis.

INTEREST AND OTHER EXPENSES

Interest payable and other expenses are recognized on accrual basis.

LOAN AND AGREEMENTS

Local Government Infrastructure Improvement Project agreement with Asian Development Bank (ADB) on 19.01.2006 for implementation of loan No. 2201 SRI (SF) allocated US\$ 42.5 million to LLDF under the component B of the project for Local Government infrastructure service delivery. In the project, Local Authorities are entitled to receive a grant and a loan components through LL&DF, which vary depending on the category of the LAs. According to the section 1.01 of the project agreement (Subsidiary loan agreement) and section 3.01(a) of the Loan Agreement signed with the ADB, The re-lending amount to LL&DF is equal to twenty four million six hundred and sixty seven thousand special drawing right (SDR 24,667,000) and the repayment term is thirty two years in 96 quarterly instalments including a grace period of eight years.

The interest payment is 1% in the grace period and 1.5% thereafter. This will be based on the loan amount outstanding at the end of the quarter.

An interest rate of 9% p.a will be charged on the loan component to the Local Authorities while the majority of grant has to be managed out of the interest margin by the fund. Therefore Fund Management is very crucial for LL&DF's future.

LOCAL LOANS & DEVELOPMENT FUND

LOANS RELEASED AS AT 2011.12.31

	Councils	Amount	Construction weekly Fair & Economic Center	Construction of Crematoria	Establishment of Road Maintenance Unit	Construction of Rural Roads	Construction of Office Building & Libraries
1	Dimbulagala P.S.	1,950,000	1,950,000				
2	Matugama P.S.	5,000,000			5,000,000		
3	Akmeemana P.S.	1,677,000	1,677,000				
4	Yatiantota P.S	900,000		900,000			
5	Horana U.C.	6,700,000				6,700,000	
6	Baddegama P.S	3,152,000	3,152,000				
7	Matara P.S.	2,675,000		2,675,000			
8	Kandy M.C.	30,000,000			30,000,000		
9	Niyagama P.S.	2,000,000	-	2,000,000			
10	Balangoda P.S.	1,030,000		1,030,000			
11	Miniwangoda U.C.	2,800,000	2,800,000				
12	Vengalcheddikulam P.S.	10,000,000			10,000,000		
13	Kotte M.C.	30,000,000			30,000,000		
14	Kundasale P.S.	3,761,000		3,761,000			-
15	Kobeigane P.S						92,000

		92,000			-		
16	Balapitiya P.S.	970,000		970,000	-		
17	Kesbewa UC	3,000,000		3,000,000			
	Total	105,707,000	9,579,000	14,336,000	75,000,000	6,700,000	92,000

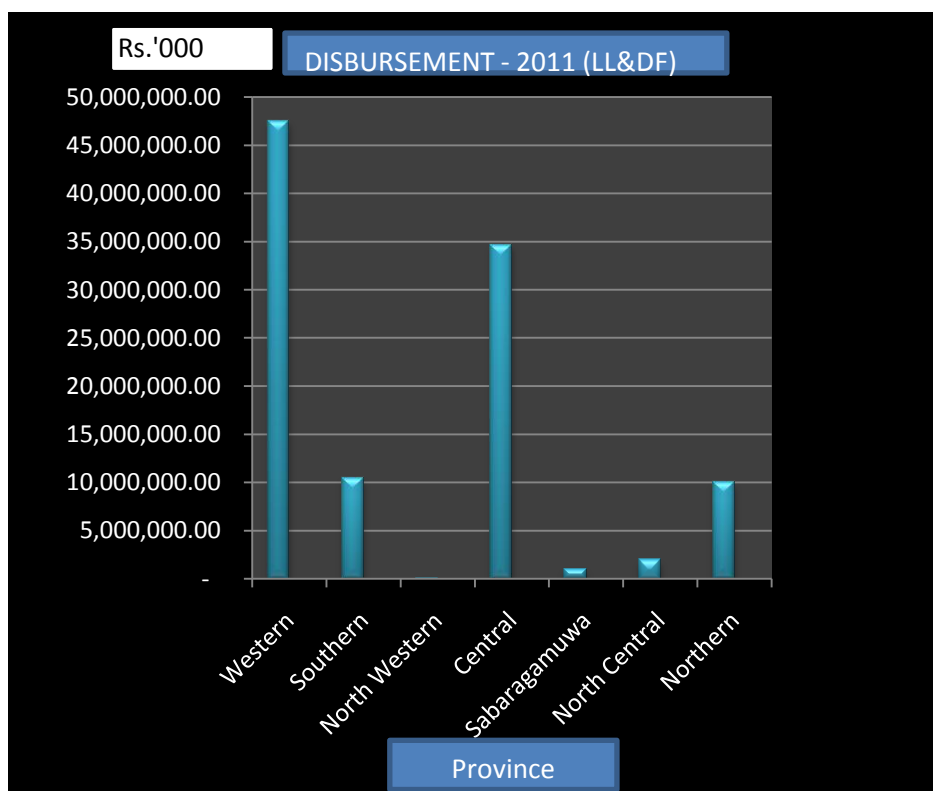
LOAN DISBURSEMENT - LL&DF

FOR THE PERIOD - YEAR 2011

PROVINCE WISE

Rs'000

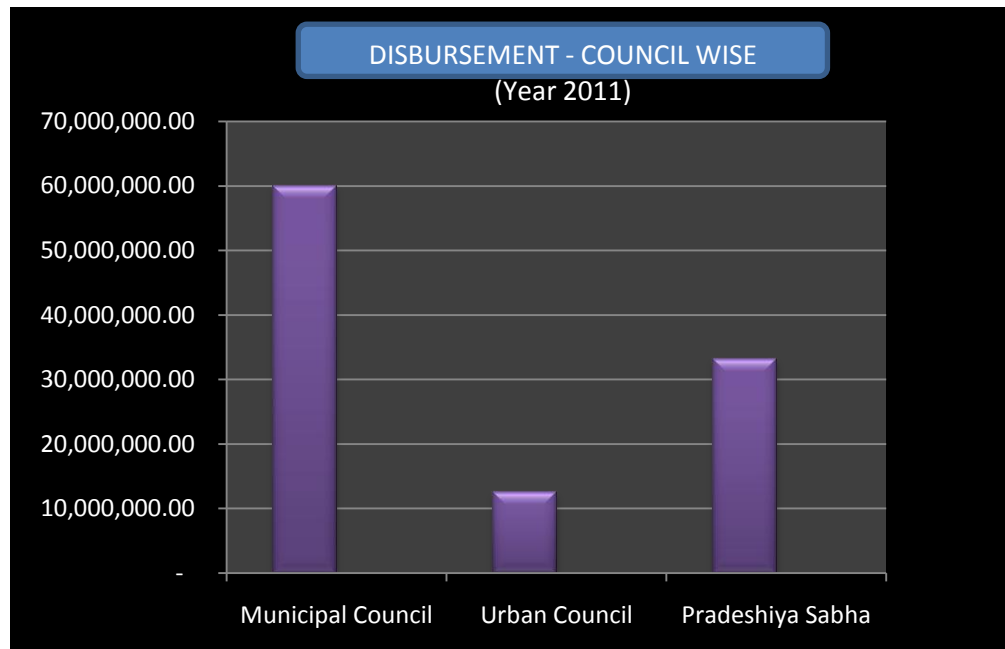
Province	Amount Rs.	% of the Total
Western	47,500,000.00	45
Southern	10,474,000.00	10
North Western	92,000.00	0.1
Central	34,661,000.00	33
Sabaragamuwa	1,030,000.00	01
North Central	1,950,000.00	02
Northern Province	10,000,000.00	09
Total	105,707,000.00	100



Loan Disbursement
For the period - year 2011
COUNCIL WISE

Rs'000

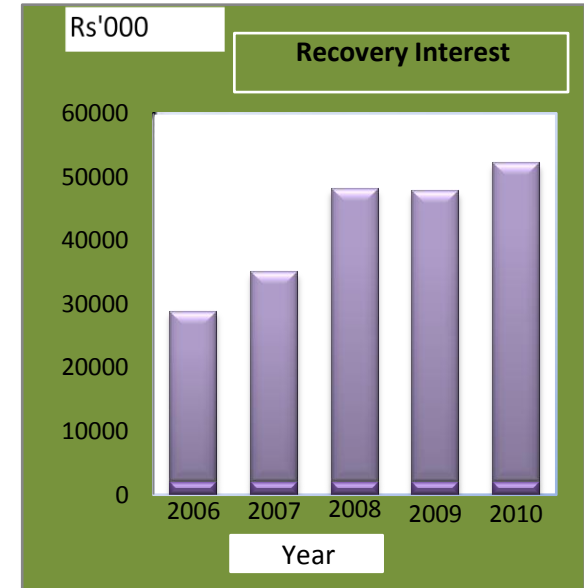
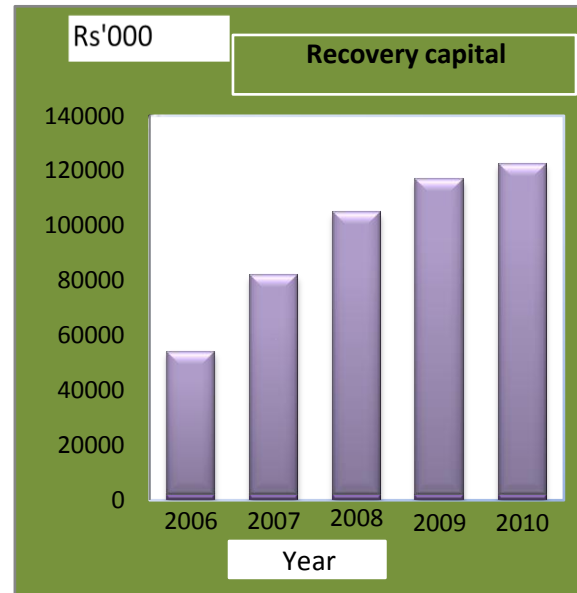
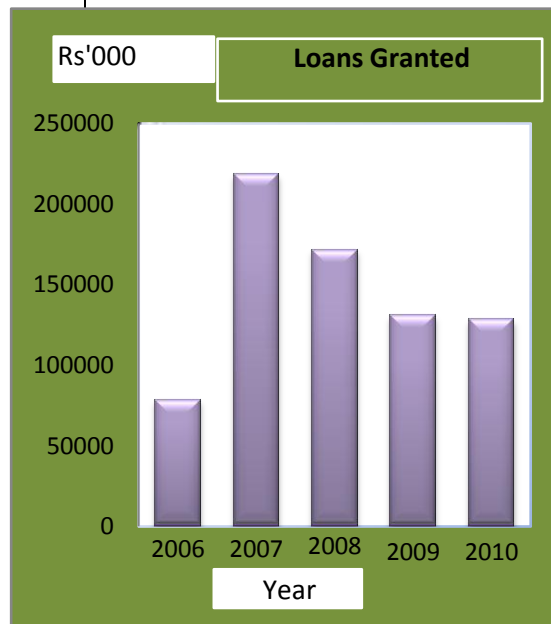
Council	Amount Rs.	% of the Total
Municipal Councils	60,000,000.00	57
Urban Councils	12,500,000.00	12
Pradeshiya Sabha	33,207,000.00	31
Total	105,707,000.00	100



Local Loans & Development Fund

Activities 2007-2011

Year	Loans Granted	Recovery Capital	Recovery Interest
2007	216,606	79,690	32,947
2008	169,518	102,892	46,002
2009	128,570	114,609	45,753
2010	126,195	120,487	50,062
2011	105,707	131,766	49,899

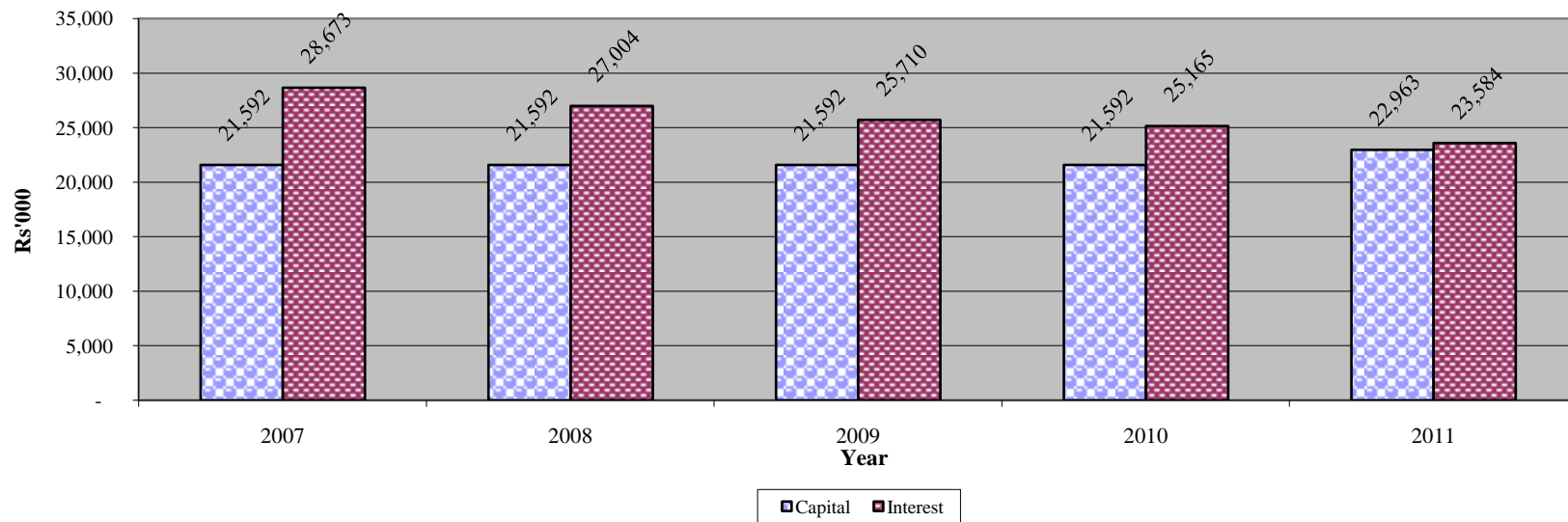


Local Government Infrastructure Improvement Project issuing Loans to Local Authorities is the main reason for decrease in progress of Loan Disbursement of LL&DF.

**LOCAL LOANS AND DEVELOPMENT FUND
REPAYMENTS TO THE TREASURY - 2007- 2011**

Rs.'000

Year	Capital	Interest
2007	21,592	28,673
2008	21,592	27,004
2009	21,592	25,710
2010	21,592	25,165
2011	22,963	23,584





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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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Date

December 2012

The Chairman,
Local Loans and Development Fund

Report of the Auditor General on the Financial Statements of the Local Loans and Development Fund for the year ended 31 December 2011 in terms of Section 14(2)(c) of the Finance Act, No.38 of 1971

The audit of financial statements of the Local Loans and Development Fund for the year ended 31 December 2011 comprising the balance sheet as at 31 December 2011 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No.38 of 1971 and Section 28 of the Local Loans and Development Fund Ordinance No.22 of 1916. My comments and observations which I consider should be published with the annual report of the Fund in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Fund on 22nd August 2012.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers Internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

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1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statement

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Local Loans and Development Fund as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Standards

Following non-compliances were observed.

- (a) The Loan repayment amounting to Rs: 34,521,003 which should be settled to the Treasury within one year period had not been shown under current liabilities in terms of SLAS 3.
- (b) Post-employment benefit obligation should be made using a Gratuity Formula Method in terms of SLAS 16. However Gratuity Liability had not been computed in accordance with above requirement.
- (c) The current tax liability had not been calculated in terms of paragraphs 5 and 46 of SLAS 14

2.2.2 Accounting Deficiencies

Following observations are made.

- (a) Staff training expenditure of Local Loans and Development Fund (LLDF) amounting to Rs: 598,603 had been accounted as Fixed Assets considering as modernization expenses instead of being charged against revenue. Therefore fixed assets and the financial results (surplus) for the year 2011 had been overstated by the same amount.
- (b) A sum of Rs: 2,847,449 paid for the purchase of 15 laptopcomputers and other computer accessories had been capitalized as modernization expenses instead of being accounted for as computer equipment. Therefore, the modernization expenses had been overstated by the same amount.
- (c) A sum of Rs: 682,690 spent for partitioning work of the building taken on rent in which the Institution is functioning, had been capitalized instead of being charged against income.

2.2.3 Unreconciled Balances

As per financial statements the balance of interest receivable from Local Authorities (LGIP) as at 31 December 2011 was Rs: 76,131,812 and as per schedule attached to the financial statements it was shown as Rs: 83,857,352. Hence a difference of Rs; 7,725,540 was observed.

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Loan balances aggregating Rs: 535,502,937 which was given by the LLDF, to Local Authorities had been shown under non-current assets as debtors. Details are as follows..

Local Authority Outstanding Loan balances as at 31 December 2011

	Rs.
Municipal Councils	99,229,915
Urban councils	92,845,901
Pradeshia Sabhas	<u>343,427,121</u>
Total	<u>535,502,937</u>

Adequate provision for bad and doubtful debts had not been made for un-recoverable loan balances appearing in the financial statements as balances aggregating to Rs.22, 389,336 was outstanding for a long period of time.

- (b) It was observed that loans amounting to Rs: 5,826,916 were due from 22 Pradeshieya Sabhas for over 30 years as at 31 December 2011.
- (c) Out of the total LLDF debtors balance of Rs. 567, 892,273 which was shown in the Balance Sheet as at 31 December 2011, only a sum of Rs. 207,250,165 or 36.49% had been confirmed by the respective customers even by 30 June 2012.
- (d) Out of the total debtor balances of Urban Development Low Income Housing Project aggregating Rs. 1,877,436,728 which was shown in the Balance Sheet as at 31 December 2011, only a sum of Rs. 552, 657,018 or 29.43% had been confirmed by the respective customers even by 30 June 2012.

2.2.5 Lack of Documentary Evidence for Audit

Following evidences were not made available for audit.

<u>Item</u>	<u>Value</u> Rs	<u>Evidence not available</u>
(i) Non-performing loan interest		
(ii) Local Loan and Development Fund	16,534,087.50	} Confirmations and Age analysis
Perennial Crop Development project	22,733,319.45	
Urban Development and Low Income Housing Project	367,966,712.54	
(iii) Interest receivable-Non-current	20,745,940.86	
UDLIHP	8,461,973.78	
PCDP		

2.2.6 Non-compliance with Laws, Rules, Regulations, and Management Decisions

Instances of non-compliance observed in audit are given below.

<u>Reference to Laws, Rules, Regulation etc.</u>	<u>Non-Compliance</u>
(a) Treasury Circular No: IAS/ 2002/02 of 28 November 2002	A separate Register of Fixed Assets in terms of the circular had not been maintained for the computers valued at Rs: 5,320,454 owned by the Fund.
(i) Paragraph 2	
(ii) Paragraph 4	Even though the staff officers in charge of computers Should maintain a file on the computer data base on the information appearing in the Register of Computer Assets, it had not been so maintained.
(b) Financial Regulations FR 507(2)	The existence of each item of assets should be verified on 31 December and note the condition of the assets. A statement of fixed assets as at the end of the year under review prepared accordingly was not

furnished to the Auditor General along with the annual accounts.

2.2.7 Unauthorized Transactions

Following observations are made.

- (a) As per the recommendation of the Board of Commissioners of Local Government Infrastructure Improvement Project, capitalization of interest up to the completion date of the projects on the amounts disbursed from time to time had been made. Due to non-entering of a condition for capitalization of interest into loan agreement, significant variance was observed between loan amount shown in agreement and loan amount shown in the accounts. Hence interest of Rs: 54,914,558 had been capitalized as at 31 December 2011 without the consent of the borrower.
- (b) According to the Loan agreement (LGIIP), delay in payment of interest in more than three months an additional interest of 2% on the delayed amount for the duration of delay should be paid. However, 11% of additional interest had been charged on delay in payment of interest, in contrary to the conditions in the Loan agreement.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year ended 31 December 2011 had resulted in a deficit of Rs. 49,075,907 after tax as compared with the corresponding deficit Rs. 14,987,619 after tax for the preceding year, thus indicating an increase of Rs. 34,088,288 in the deficit for the year under review. The deficit of Rs. 42,576,812 Rs. 17,792,989 and Rs. 834,819 relating to the Local Government Infrastructure Development Project, Urban Development Low Income Housing Project and Perennial Crop Development project respectively for the year 2011 had also been included in the above deficit.

The following table gives a summary of financial results for the year under review and the preceding year.

	<u>Year ended 31 December</u>		<u>Variation</u> %
	<u>2011</u> Rs:	<u>2010</u> Rs;	
Interest Income on Loans Granted	246,790,845	227,053,363	9
Interest expenses on Treasury Loans	<u>(164,019,863.)</u>	<u>(157,702,050)</u>	4
Operating Surplus	82,770,982	69,351,313	19
Investment Income	6,297,567	5,934,506	6
Other Income	2,371,573	166,357	1326
Administrative Expenses	<u>(15,542,869)</u>	<u>(14,297,694)</u>	9
Gross Surplus	75,897,253	61,154,481	24
Net Grant amortization	(121,674,545)	(65,868,283)	85
Income tax paid	<u>(1,298,615)</u>	<u>(4,623,817)</u>	-72
Overall deficit for the year	(47,075,907)	(9,337,619)	404
Provision for Income Tax	<u>(2,000,000)</u>	<u>(5,650,000)</u>	-65
Deficit after provision for Tax	(49,075,907)	(14,987,619)	227

3.2 Analytical financial review

The financial results of the year under review as compared with last preceding four years are given below.

	<u>2011</u> Rs: (000)	<u>2010</u> Rs: (000)	<u>2009</u> Rs: (000)	<u>2008</u> Rs: (000)	<u>2007</u> Rs: (000)
Total Income	255,460	233,776	191,869	164,204	167,355
Total Expenditure	(179,563)	(172,622)	(169,830)	(158,169)	(121,378)
Gross Surplus	75,897	61,154	22,039	6,035	45,977
Payment to Consolidated Fund			(5,000)	(3,000)	(3,000)
Provision for bad debts	-	-	-	(12,000)	(26,542)
Net grant amortization	(121,674)	(65,868)	(30,985)	-	-
Income Tax paid	(1,299)	(4,624)	(11,279)	-	-
Net Surplus/ (deficit)	(47,076)	(9,338)	(25,225)	(8,965)	16,434
Provision for Income Tax	<u>(2,000)</u>	<u>(5,650.)</u>	(6,500)	(10,127)	(500)
Surplus/Deficit after provision for Tax	(49,076)	(14,988)	(31,725)	(19,092)	15,934

The following observations are made in this regard.

- (a) The total income had increased from Rs. 167.3 Million to Rs: 255.4 Million or 52.65 per cent during the period of 2007- 2011 and total expenses had increased from Rs.121.3 Million to Rs 179.5 Million or 47.98 per cent during the same period..
- (b) The net grant amortization of Local Government Infrastructure Improvement Project (LGIP) had increased from Rs. 30.98 Million to Rs. 121.67 Million or 292.74 per cent during the period of 2009 to 2011.
- (c) The Deficit after provision for tax had been increased from Rs. 19.09million to Rs. 49.07 million or 157.04 per cent during the period of 2008 to 2011.

4 Operating Review

4.1 Performance

The main function of this Fund is to provide loans under the concessionary interest rates to the revenue earning projects and for the improvements of infrastructure facilities of non-revenue earning nature projects of Local Authorities. In addition, the management of the recovery of loan installments and interest of the Perennial Crops Development Project, the Urban Development and Low Income Housing Project and Local Government Infrastructure Improvement project financed by the Asian Development Bank are also functions of the Fund.

4.1.1 Loan Administration

(a) Performance of Local Government Infrastructure Improvement Project (LGIP)

Following observations are made.

- i. The LL&DF has signed a Project Agreement with ADB for implementation of Loan No: 2201 SRI (SF) and had taken over, full responsibility of the implementation and monitoring of the sub projects. Project period will be terminated in next year but out of approved project cost of Rs: 5,955 Million, only Rs. 3,382 million or 56.79 per cent had been disbursed up to 31 December 2011.
- ii. Under this project, Local Authorities are entitled to receive a grant and a loan component which varies depending on the category of the Local Authorities (LA). LA's were given Loans and grants aggregating Rs. 1,343,983,387 and Rs. 2,079,781,901 respectively as at 31 December 2011. However the ADB provided Rs. 2,589,283,200 as a loan to LL&DF. It is repayable within 32 Years with a grace period of 8 years at an interest rate of 1% per annum during the grace period and 1.5% per annum thereafter. An interest rate of 9% is charged by the LLDF on the loan given to Local Authorities. Only a sum of Rs. 36,748,199 had been received, out of total interest receivable balance amounting to Rs. 108,738,150. According to the age analysis presented to audit, out of outstanding loan installments amounting to Rs. 45,678,980, a sum of Rs: 13,811,099 was outstanding for more than 90 days.
- iii Net grant amortization of Rs. 121,674,545 had been charged to the income statement during the year under review. While the majority of grant had to be managed out of the

- interest margin by the Fund. Therefore Fund management is very crucial for LL&DF's future.
- iv According to the Loan Agreement No.2201 SRI (SF) dated 19 January 2006 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank, the implementation of the Component " B " of the Local Authorities Infrastructure Development Project had been assigned to the Local Loans and Development Fund. Under this, a sum of U S \$ 42.6 million (Rs. 4,260 million) had been allocated to the Local Loans and Development Fund for the improvement of infrastructure of Local Authorities. Although it had been estimated to release Rs. 2,181 million to the project during the year under review, only a sum of Rs. 1,321 million had been released.

(b) Performance of Urban Development Low Income Housing Project(UDLIHP)

The Local Loan and Development Fund (LL&DF) had undertaken to recover the loan amounting to Rs: 2,270,125,714. granted by the Urban Development and Low Income Housing Project (UDLIHP), as a recovery agency to the Treasury. These loans are to be repaid to the Treasury within 25 years by equal installments at the rate of 5.25% while recovery is made from Local authorities by 64 and 40 quarterly installments at 8% and 10% interest rate. Out of 106 loans aggregating Rs: 1,877,436,727 granted as at 31 December 2011, no any single capital installment had been paid by 19 Loans aggregating Rs.469,972,626 as at 31 December 2011. Interest receivable amounting to Rs: 64,893,552 from 31 loans were categorized as interest in suspense during the year under review. Total accumulated interest in suspense amounted to Rs. 367,966,712 for the period of 2005 to 2011. Effective action had not been taken to recover these outstanding balances and adequate provision also had not been made in the accounts.

(c) Perennial Crops Development Project (PCDP)

Following observations are made.

- (i) Sums of Rs: 72,001,574 and Rs: 31,195,292 shown in the financial statements represented capital and interest receivable on loans granted to Local Authorities respectively by Perennial Crops Development Project (PCDP) as at 31 December 2011. No any installment had been paid at all by the Dambulla Pradeshiya Sabha on the Loan of Rs.12 million granted in 1995.
- (ii) Out of the initial loan amounting to Rs. 60,922,475 released to Kandy Municipal Council in 1995, a sum of Rs.59,781,574 had remained unsettled as at 31 December 2011.

(d) **Granting of Loans(LLDF)**

The Fund had been allocated a sum of Rs.175 million for providing loans to various projects during the year under review and loans amounting to Rs. 105.5 million had been granted during the year 2011. Matters observed in this connection are given below.

- (i) A Sum of Rs.75 million had been granted for the purchase of Machinery and Equipment which had been estimated at a cost of Rs.35 million for 6 projects. Therefore a sum of Rs. 40 million had been over disbursed and only 4 projects had been completed.
- (ii) Although a sum of Rs. 20 million had been allocated for providing loans to construct an office building, libraries and memorial halls under 5 projects in the year under review, a sum of Rs. 92000 or 0.46 per cent had been provided and only one project was completed.
- (iii) A sum of Rs. 25 million had been allocated for 3 projects to construct of a weekly fair and economic centers. out of it a sum of Rs.9.57 million had been disbursed and only 4 projects were completed during the year under review.
- (iv) A sum of Rs: 25 million had been allocated for 5 projects to construct of Crematoriums and out of it a sum of Rs. 14.33 million had been disbursed. However only 4 projects were completed during the year under review.
- (v) A sum of Rs: 15 million had been allocated for 2 projects, to develop roads.Out of it a sum of Rs: 6.7 million had been disbursed. However only one project had been completed during the year under review.
- (vi) Although Rs.5.5 million had been allocated for 3 projects to construct public markets, to implement a solid waste management project, 5 Water Supply Schemes, procure 50 motor cycles and to implement other Revenue earning Projects, no any single loan had been granted for these projects during the year under review.

(e) **Recovery of Outstanding Loan Installments (LLDF)**

Out of loan installments due from Local Authorities as at 01 January 2011 amounting to Rs. 26.5 million, only a sum of Rs.13.58 million had been recovered during the year under review. Details are as follows.

Local Authorities	Outstanding Installments as at 01 January 2011	Recoveries made during the year 2011	percentage of Recovery
	Rs:	Rs:	%
Municipal Councils	1,706,882	1,706,882	100
Urban Councils	11736,158	2,162,393	18.42
PradeshiyaSabhas	13,041,864	9,348,112	71.67
Total	26,484,940	13,217,387	50.0

The following observations are made in this regard.

The recovery of loan installments outstanding from Urban Councils as at 01 January 2011 had been at a low level of 18.42 per cent, the percentage of recoveries from the Pradeshiya sabhas had been 71.67 per cent. Thus indicating the overall loan recovery percentage was 50 per cent.

- (i) Out of loans amounting to Rs.7,850,000 and Rs.2,012,000 granted to the Urban Councils of Panadura and Valvettithurai respectively sums of Rs.4,850,000 and Rs.1,888,755 respectively had been outstanding as at 31 December 2011. .
- (ii) Out of the Loan amounting to Rs. 1,150,000 granted to the Pradeshiya Sabha- Damana in the year 2003 for the development of Hingurana weekly fair, only an installment of Rs. 40,537 had been recovered. No installments had been recovered there after.
- (iii) Out of the Loan amounting to Rs.855,000 granted to the Pradeshiya Sabha , Karachi in the year 1983, an installment amounting to Rs.11,285 and an interest amounting to Rs.486,677 only had been recovered up to the year 1999.
- (iv) Out of the loan amounting to Rs.940, 000 granted to the Pradeshiya Sabha, Weligama in the year 1982, installments amounting to Rs.376, 000 only had been recovered.
- (v) Out of the loan amounting to Rs.1, 791,500 granted to the Pradeshiya Sabha, Medagama in the years 1986 and 1987, installments amounting to Rs. 331,927 only had been recovered.
- (vi) No any single installment had been recovered in respect of loans amounting to Rs. 469,972,626 and Rs 12,000,000 granted by the Urban Development and Low Income Housing Project and the Perennial Crops Development Project respectively from Local Authorities.

(f) **Recovery of Outstanding Loan Interest (LLDF)**

Out of the loan interest amounting to Rs. 18.47 million outstanding as at 01 January 2011, the recoveries made in the year under review were as follows.

Local Authorities	Outstanding Interest as at 01 January 2011	Recoveries during the year 2011	percentage of Recovery
Rs.	Rs:	%	
Municipal Councils	643,806	643,806	100.00
Urban Councils	11,024,597	954,496	8.65
PradeshियाSabhas	6,806,371	2,699,683	39.66
Total	18,474,774	4,297,985	23.26

The following observations are made in this connection.

- (i) The recovery position during the year under review in respect of the Urban Councils and Pradeshिया Sabhas had been at a low level of 8.65 per cent and 39.66 per cent respectively. The loan interest recoveries from the Municipal Councils had been 100 per cent. Thus indicating the overall loan interest recovery percentage was to only 23.26 per cent.
- (ii) Out of the loan interest recoverable from the Local Authorities for the year 2011 amounting to Rs: 50,124,087, a sum of Rs: 44,705,330 or 89.2 per cent had been recovered as at 31 December 2011.
- (iii) The outstanding loan interest recovered during the year 2011 amounted to Rs.4.2 million out of the total outstanding interest of Rs.18.4 million as at 01 January 2011.

An age analysis of outstanding loan Interest as at 31 December 2011 is shown below.

Period	Amount of Outstanding Loan Interest
	Rs:
Over 5 years	10,089,324
Over 1 year and less than 5 years	4,117,899
Less than 1 year	<u>5,408,757</u>
Total	<u>19,615,980</u>

(iv) The amounts of loan granted to the Urban councils of Panadura, Ampara and Ambalangoda were Rs. 7,850,000, Rs. 7,270,000 and Rs. 3,360,000 respectively. The loan interest due up to the year 2011 amounted to Rs. 6,356,000, Rs. 1,323,860 and Rs. 2,378,984 respectively.

(v) The details of outstanding loan interest on the loans granted to Pradeshiya Sabhas are shown below.

Pradeshiya Sabha	Amount of Loan Granted	Interest due as at 31 December 2011	Period of outstanding
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	Rs.	Rs.	Rs.
Hakmana	3,000,000	1,043,861	2005-2011
Beruwala	9,900,000	119,133	2011
Beliatta	13,000,000	235,941	2011
Damana	1,950,000	298,026	2006-2011
Embilipitiya	10,122,900	430,849	2008-2011
Madagama	1,791,500	2,396,770	Over 5 years

(g) Progress of Interest Recovery

Total loan interests outstanding as at 01 January 2011 and the recoveries made in the year under review were as follows.

(i) Local Loans and Development Fund (LLDF)

<u>Loan Category</u>	<u>Total interest receivable as at 01 January 2011</u>	<u>interest received during 2011</u>	<u>Receivable as at 31 December 2011</u>	<u>Percentage Of interest received</u>
	Rs.	Rs.	Rs.	%
Non-Performing Loans-LLDF	16,534,087.	Nil	16,534,087.	-
Loan Interest receivables (non-current)	18,516,750.	4,199,398.	14,317,351.	22.68
Loan Interest receivables (current)	<u>49,997,708.</u>	<u>44,588,951.</u>	<u>5,408,757</u>	89.18
Total	<u>85,048,545.</u>	<u>48,788,349</u>	<u>36,260,195.</u>	57.37

(ii) Urban Development Low Income Housing Project(UDLIHP)

<u>Loan Category</u>	<u>Total interest receivable</u> <u>01 January2011</u> Rs.	<u>Interest received</u> <u>2011</u> Rs.	<u>Receivable</u> <u>31December2011</u> Rs.	<u>Percentage</u> <u>Of interest</u> <u>received</u> %
Non-Performing Loans-UDLIHP	372,251,500.	4,284,787.	367,966,712	1.15
Loan Interest receivables (non-current)	22,542,923.	1,796,982.	20,745,941.	7.97
Loan Interest receivables (current)	<u>91,458,641.</u>	<u>76,145,884.</u>	<u>15,312,757.</u>	83.26
Total	<u>486,253,064.</u>	<u>82,227,653.</u>	<u>404,025,410.</u>	16.91

(iii) Perennial Crops Development Project (PCDP)

<u>Loan Category</u>	<u>Total interest receivable</u> <u>01 January2011</u> Rs.	<u>Interest received</u> <u>2011</u> Rs.	<u>Receivable</u> <u>31December2011</u> Rs.	<u>Percentage</u> <u>Of</u> <u>interest</u> <u>received</u> %
Non-Performing Loans-PCDP	24,928,137.93	2,194,818.48	22,733,319.45	8.80
Interest receivables from PCDP(non-current)	8,461,973.78	0	8,461,973.78	0
Interest receivables from PCDP (current)	<u>5,463,842.46</u>	<u>5,457,242.46</u>	<u>6,600.00</u>	99.88
Total	<u>38,853,954.17</u>	<u>7,652,060.94</u>	<u>31,201,893.23</u>	19.69

Long dues of the loan capital or interest are classified as non-performing and only interest is accrued in an interest suspense account. Actual value of capital arrears had not been disclosed in the accounts. Even though lot of interests suspense were written off and loans had been restructured in the past years, proper action had not been taken to recover the arrears of loans during the year under review. Out of total interest in suspense receivable amounting to Rs. 413,713,725 as at 01 January 2011, a sum of Rs. 6,479,605 or 1.57 per cent only had been received during the year under review.

(h) Total Loans, Non-Performing Loans and NPL Ratios

According to the information made available total loans outstanding, non-performing loans and NPL Ratio for the year ended 31 December 2011 and preceding two years are given below.

Institute/Project	2011			2010			2009		
	Capital Outstanding Rs.	Non Performing Loans Rs.	NPL %	Capital Outstanding Rs.	Non Performing Loans Rs.	NPL %	Capital Outstanding Rs.	Non Performing Loans Rs.	NPL %
LL&DF	567.89	14.24	2.5	594.79	14.24	2.4	587.80	14.24	2.4
UDLIHP	1,877.44	878.06	46.7	1,950.57	882.89	45.2	2,013.19	884.46	43.9
PCDP	72.00	71.78	99.6	73.15	72.92	99.7	73.28	72.92	99.
Total	2,517.33	964.08	38.3	2,618.51	970.05	37.0	2,674.27	971.62	36.3

It was observed that the Non-performing loans percentage had increased during the period of 2009 – 2011 with regard to all three loan schemes.

4.2 Management Inefficiencies

Loan installments and interest recoveries of the revolving fund made in the year 2011 were as follows.

Rs.

Total installments and interest recoveries	418,212,437
Less: Total capital and interest paid to Treasury	<u>(199,115,262)</u>
Balance of funds	219,097,175
Loan released	<u>(105,707,000)</u>
Excess funds	113,390,175
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The following observations are made in this regard.

- (a) The LL&DF Vision is to be the leader of financial Institution for local level infrastructure financing. Therefore the LL&DF has to provide long term financing to Local Authorities for basic infrastructure services. LL&DF has earned total capital and interest income of Rs: 418.2 million and paid back to Treasury amounting to Rs; 199.1 million. Out of capital and interest received, Rs: 105.7 million only had been granted to Local Authorities as loan during the year under review.
- (b) Although a sum of Rs. 847,000 had been paid to a private Company to develop a Computer Software for the use of Local Loans and Development Fund, it was observed that the software had not been properly functioned even by 21 May 2012, the date of audit examination.
- (c) Loan granted to Kandy MC amounting to Rs; 30 million during the year under review without considering the previous arrears of loan installments of Rs: 105.29 million from PCDP and capital outstanding of Rs; 355.15 million from UDLIHP.

4.3 Operating Inefficiencies

Following observations are made.

(a) LGIP Loans

According to the test checks carried out by the audit, following major weaknesses were observed in the management of LGIP loans.

The loan amounting to Rs: 37,514,097 had been granted to Gampaha MC for the construction of Storm Water Project in the year 2008 and expiration of the grace period was on 31 October 2010. According to the agreement, immediately after expiration of the grace period, the loan installments have to be recovered. Although the total installment and interest in arrears was Rs: 3,855,237, proper action had not been taken to recover the outstanding loans up to 30 June 2012.

(b) LLDF Loans

According to the test checks carried out by the audit, following major weaknesses were observed in the management of LLDF loans.

(i) The loan amounting to Rs. 7,850,000 had been granted to the Panadura UC for the construction of shopping complex. Adequate security had not been obtained when granting the loans to the UC. Discussion of the management had been indicated the progress of project is stagnated. The loan installment had been released to the UC in three times even though the Commissioner of Local Government of the Western Province also indicated that this loan had been granted without proper approvals. The UC had obtained loans from People's Bank aggregating Rs.20 million for the construction of the same shopping complex by pledging these properties as security in the year 1995.

(ii) The loan of Rs.3.5 million had been granted for the purchase of a Escalator machine to the Hikkaduwa UC in the year 2005, without considering the arrears of previous loans of Rs.18, 214,587. No any loan installment had been paid after March 2009. Another loan had been granted for the construction of shopping complex amounting to Rs. 4.6 million to Hikkaduwa UC during the period of 2007 to 2009, without considering the previous loan arrears.

(c) UDLIHP Loans

According to the test checks carried out by the audit the following major weaknesses were observed in the management of UDLIHP loans.

(i) Seethawakapura PS - Construction of Bus stand and Supermarket Complex. (UDLIHP)

A loan amounting to Rs.146,752,738. had been granted to Seethawakapura PS for the construction of Bus stand and Supermarket Complex. This loan would be recovered from 48 installments of Rs. 3,668,818 from third quarter of 2005. According to the records, the loan balance as at 31 December 2011 was Rs. 146,006,623 and arrears of interest was Rs.60,248,441. Adequate securities had not been obtained when granting this loan and the credit worthiness had also not been considered when granting the loan.

(ii) Badulla MC – Construction of Welekade Market (UDLIHP)

A sum of Rs. 60,191,794.57 had been granted for construction of the Welekade market in Badulla MC. The Project Director had been requested from LLDF to recover this loan from 40 installments. However estimate, plan and work done status report had not been furnished to the audit.

The outstanding loan balance as at 31 December 2011 was Rs. 33,564,401. The recovery position had not been evaluated when granting the loan and adequate security had not been obtained. It was observed that due to construction defects, the MC was reluctant to repay the loan.

(iii) Badulla MC (UDLIHP)- storm water Drainage net work in Badulla town area.

A loan amounting, Rs. 21,778,551 had been granted and should be recovered by 72 installments. However total arrears as at 30 August 2011 was Rs. 10,572,703. Effective action had not been taken to recover the outstanding loan.

The loans had been granted to Badulla MC aggregating Rs. 103,059,368 for 7 projects during the period of 2004-2005. However repayment had not been made from the year 2007. Total outstanding loan as at 31 December 2011 was Rs. 95,682,184 and interest outstanding was Rs. 56,557,625.

(iv) Rathnapura MC–Road improvement project (UDLIHF)

A loan amounting to Rs.12, 656,450 had been granted and should be recovered in 64 installments since 2005. However the road had been destroyed due to construction defects. The MC had rejected the repayment of the loan and total loan outstanding as at 31 December 2011 was Rs. 8,014,764.

(v) Hikkaduwa UC- Subproject No. 5521- Improvement of storm water Drainage in (UDLIHP)

A loan amounting to Rs.16, 540,616 had been granted to the improvement of storm water Drainage in Hikkaduwa. The arrears of capital was Rs.1, 630,766 and arrears of interest was Rs.2,973,901 as at 30 August 2011. After three years from the beginning of the loan granted, repayment of loan had been stopped and proper action had not been taken by the LL&DF to recover the loan.

(vi) Ambalangoda UC -storm water Drainage Improvement project (UDLIHP)

A loan of Rs.12,142,439 had been granted to the Ambalangoda UC to construct of storm water Drainage Improvement project in the year 2005. However arrears of capital portion of this loan was Rs. 928,436 and arrears of interest was Rs 5,541,684 as at 31 December 2011. However the project had not been completed and also it had not been transferred to the UC. The installment in arrears was Rs.1,774,165. Proper action had not been taken to recover the loan.

(vii) Balangoda UC- Construction of “Bus park and Town (UDLIHP)

Out of the total loan granted amounting to Rs. 111,209,828 the outstanding balance of loan as at 31 December 2011 was Rs.58,135,245. According to the records, major construction weaknesses were observed in the bus stand and shopping complex and electric item valued at Rs.20 million had been stolen. However the land and building had not been transferred to the UC. The loan had been granted without assessing the credit worthiness and had not been obtained adequate securities.

4.4 Un-economic Transactions

Under The Asian Development Bank Loan No. 899 SRI (SF) loans had been given to Local Authorities by Perennial Crop Development Project. LLDF should recover and pay back this loan and interest to Treasury at a rate of 10% as the Recovery Agent. But the loan granted amounting to Rs: 60,922,475 to Kandy MC, had been repaid at a rate of 9% .Thus LLDF had sustained a loss of 1% per annum.

4.5 Human Resource Management

According to the information made available, the approved cadre, the actual cadre and vacancies existed as at the end of the year under review is given below.

<u>Category of Staff</u>	<u>Approved Cadre</u>	<u>Actual Cadre</u>	<u>Vacant cadre</u>
Senior Manager	1	1	-
Managers	2	-	2
Junior Managers	2	1	1
Associated Officers	25	16	9
Management assistants	8	5	3
<u>Non-Technical</u>			
Primary level Skilled	2	1	1
Primary level Unskilled	<u>2</u>	<u>1</u>	<u>1</u>
Total	<u>42</u>	<u>25</u>	<u>17</u>

The following observations are made in this regard.

- (a) It was observed that 17 vacancies were existed in the year 2011 against the approved cadre. However two vacancies in managerial level had been filled in year 2012.
- (b) Actions had not been taken to fill the other vacancies.
- (c) Even though certain targets had been set out regarding the Human Resource Management Development, in the Corporate plan for the period 2011-2013 and Action plan for the year 2011, those targets had not been achieved.

4.6 Gratuity Fund

A Gratuity Fund had not been established by the Fund up to 31st October 2012.

5. Accountability and Good Governance

5.1 Internal Audit

Accounting Officer of the LLDF should establish an Internal Audit unit for the purpose of the discharge of their duties and responsibilities. If not, internal audit unit attached to the Ministry concerned, may extend the scope of the work of such unit to cover the work performed by the Fund. Internal Auditor of the line Ministry had been appointed as Internal Auditor of the Fund and an audit programme relating to financial matters were prepared but no single audit had been carried out during the year under review.

5.2 Budgetary Control

Significant variances were observed when compared the budgeted income and expenditure with the actual income and expenditure of LLDF for the year 2011 and budgets had not been prepared and presented to audit for the PCDP and LGIIP projects during the year under review. Thus indicating that the budget had not been made use of as an effective instrument of good governance.

6. Systems and Controls

Deficiencies observed in systems and controls during the course of audit were brought to the notice of the Fund from time to time. Special attention is needed in respect of the following areas of control.

- (i) Recovery of outstanding loans and interest
- (ii) Loan disbursements
- (iii) Accounting
- (iv) Information system



H.A.S. Samaraweera
Auditor General