



வாரீகை வாரீகாவ ஸஹ ஸீஶூதி
வருடாந்த அறிககையும் கணக்கும்
ANNUAL REPORT AND ACCOUNTS

2021

தேசீய ஶூய ஸஹ ஸஹ்வரீதன தரவீதர
உள்ளூர் கடன்கள் மற்றும் அபிவிருத்தி நிதியம்
LOCAL LOANS AND DEVELOPMENT FUND

ரூபு பரீபாரு, ஸீவதேசு கடுஷூ, பலூவ் ஸஹ ஶா பலூவ் பாரூ துதூயூயூ
புது நிருவாக, உள்நாட்டலுவல்கள், மாகாண சபைகள் மற்றும் உள்ளூராட்சி அமைச்சு
Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government



LOCAL LOANS & DEVELOPMENT FUND

ANNUAL REPORT AND ACCOUNTS

2021

**Ministry of Public Administration, Home Affairs,
Provincial Councils and Local Government**



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ANNUAL REPORT AND ACCOUNTS - 2021

LOCAL LOANS & DEVELOPMENT COMMISSIONERS

(LOCAL LOANS & DEVELOPMENT FUND)

01. ORGANIZATIONAL VISION, MISSION, OBJECTIVES AND FUNDS

VISSION

To be a leading financial institution for Local Level Infrastructure Financing

MISSION

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 until year 2009. 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.

02. CORPORATE INFORMATION

ESTABLISHMENT

Local Loans & Development Fund 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 LLDF were assigned the Ministry of Finance during the year 2020 and since year 2022 this institute was functioning under the subject of Ministry of Provincial Councils and Local Government.



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 340 Nos. out of 341 Nos. (Except Colombo Municipal Council) It provides Long Term loans at concessionary rates of interest.

REGISTERED OFFICE	No.24 A, Ward Place, Colombo 07
TELEPHONE	011-2687513
FAX	011-2691261
E-mail	lldf1916@gmail.com

AUDITORS

External Audit : Department of Auditor General

Internal Audit : Internal Audit Division
Ministry of Finance.

BANKERS : Bank of Ceylon

STAFF

The following staff was employed by the Fund, as at 31st December 2021.

Designation	No of Employeeed
Director	01
Deputy Director (Finance and Administration)	01
Deputy Director (Operation)	01
Assistant Accountant	01
Administrative Officer	01
Development Officer's	19
Management Assistant	10
Driver	02
Office Aide	02
Total	38



03. 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 (14) members appointed by the Hon. Minister.

- a. Chairman – (ex-officio) - Secretary to the Ministry in charge 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 of the Ministry in charge.

Board of Commissioners as at 31.12.2021

Chairman

(01) Mr.R.M.P.Rathnayake - Deputy Secretary to the Treasury, Ministry of Finance

Treasury Representative

(02) Ms.A.A.I.P.Adhikari - Deputy Director, Department of Management Service, Ministry of Finance

Members

(03) Mr.Gamini Rajarathne	Chief Secretary	(Central Province)
(04) Mr.C.J.M.G.C.Bandara	Chief Secretary	(North Central Province)
(05) Mr.P.B.Wijayarathne	Chief Secretary	(Uva Province)
(06) Mr.Sunil Jayalath	Chief Secretary	(Sabaragamuwa Province)
(07) Mr.Thusith P. Wanasinghe	Chief Secretary	(Eastern Province)
(08) Mr.R.C.De Zoysa	Chief Secretary	(Suthern Province)
(09) Mr.P.B.M.Sirisena	Chief Secretary	(North Western Province)
(10) Mrs.Jayanthi Wijethunga	Chief Secretary	(Western Province)
(11) Mr M.P.Diranjan	Commissioner of Local Government (NP)	
(12) Mr.W.B.M.R.S.A.Aluvihare	Hon Minister's Nominee	
(13) Mr.A.D.K.Guruge	Hon Minister's Nominee	
(14) Mr.A.B.Herath	Hon Minister's Nominee	



04. 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

a) 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.

b) 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 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, statues & 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.



PERIODICAL REVIEW OF THE ADEQUACY AND 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 Financial Reporting Standards (SLFRS). 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

a) 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 in their career path without discrimination.

b) 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.

c) 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.



05. ASIAN DEVELOPMENT BANK PROJECTS

ADB LOAN No.1632 SRI (SF)

URBAN DEVELOPMENT & LOW INCOME HOUSING PROJECT (UDLIHP)

LL&DF is the recovery agent of Loan component of the above project implemented by the Ministry of Urban Development since year 1998 to 2002. A total of Rs.2,270 m has to be recovered from 27 Local Authorities. While 90 % 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.

Table 5.1 : Recovery Progress (UDLIHP) – Last 05 Years

(Rs.Million)

Year	Recovery Capital	Recovery Interest
2017	74.0	68.3
2018	84.5	67.6
2019	96.0	68.1
2020	100.9	62.0
2021	107.8	58.0

ADB LOAN No.2201 SRI (SF)

LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT PROJECT (LGIIP)

As per the Asian Development Bank Loan No.2201 SRI (SF) (Local Government Infrastructure Improvement Project), LL&DF has entered into 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 following five 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 to 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 LGIP.

The total value of Loan and grants issued to Local Authorities under this project is Rs. 4,654 Million.

Table 5.2: Distribution of Loan and Grants under the Local Government Infrastructure Improvement Project.

Type of Local Authorities	Loan Amount	%	Grant Component	%	Total	%
Municipal Councils	254	53	192	40	433	93
Urban Councils	263	43	306	50	543	93
Pradeshia Sabhas	1,291	33	2,348	60	3,678	93
Total	1,808		2,846		4,654	

Table 5.1 : Recovery Progress (UDLIHP) – Last 05 Years

(Rs.Million)

Year	Recovery Capital	Recovery Interest
2017	143.7	99.3
2018	162.9	91.2
2019	181.8	77.5
2020	186.2	62.5
2021	176.6	46.3



OPERATIONAL AND FINANCIAL REVIEW

06. OPERATIONAL AND FINANCIAL REVIEW

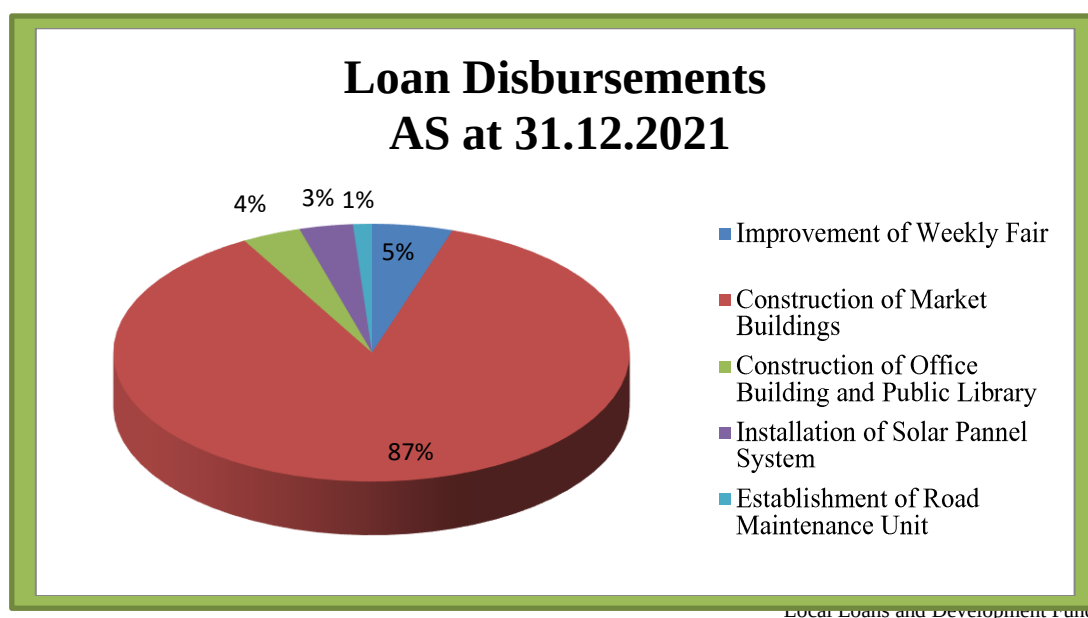
6.1 OPERATIONAL PERFORMANCE IN THE YEAR 2021

Rs.800 million was allocated in the institutional Budget in 2021 for the purpose of granting loans to the Local Authorities. During the year total Loans granted to 19 Local Authorities were Rs.848 million. These Loans are repayable during a period of 05-10 years at concessionary rates of interest. In the last 05 years, the highest loan granted to the Local Authorities in the year 2021. The 50% of approved Loans have been granted during the year. A loan facilities are provided to the Local Authorities, based on the Financial viability of the projects, Loan repayment method and Risk Management, Therefore, 98% of the loans have been granted for revenue generating projects and 2% as social and infrastructure development projects.

Loans granted summary as follows;

Table 6.1.1 : LOANS DISBURSEMENTS SUMMARY - YEAR - 2021

	Category	Interest Rate	Amount (Rs.)	No of Projects
01	Improvement of Weekly Fair	7.0%	42,896,000	01
02	Construction of Market Buildings	7.9%	733,989,758	10
03	Construction of Office Building & Public Library	7.0%	31,274,912	04
04	Installation of Solar Pannel System	7.0%	28,388,768	02
05	Establishment of Road Maintenance Unit	7.9%	10,000,000	01
06	Purchase of Vehicles for Sewerage Projects	7.9%	1,356,000	01
	Total		847,905,438	19





**Table 6.1.2 : LOCAL LOANS AND DEVELOPMENT FUND
LOAN RELEASED AS AT 31.12.2021**

	Councils	Province	Amount (Rs.)	Improvement of Weekly Fair	Purchase of Vehicles for Sewerage Projects	Installation of Solar Panel System	Establishment of Road Maintenance Unit	Construction of Market Buildings	Construction of Office Building and Public Library
01	Katana P.S	WP	1,623,000	-	-	-	-	-	1,623,000
02	Puttlam U.C	NWP	65,440,000	-	-	-	-	65,440,000	-
03	Godakawela P.S	SAB	42,896,000	42,896,000	-	-	-	-	-
04	Kuliyapitiya U.C	NWP	197,449,148	-	-	-	-	197,449,148	-
05	Bentota P.S	SP	13,983,912	-	-	-	-	-	13,983,912
06	Kurunegala M.C	NWP	24,000,000	-	-	24,000,000	-	-	-
07	Polgahawela P.S	NWP	20,000,000	-	-	-	-	20,000,000	-
08	Kurunegala M.C	NWP	375,850,000	-	-	-	-	375,850,000	-
09	Kekirawa P.S	NCP	11,375,000	-	-	-	-	-	11,375,000
10	Akuressa P.S	SP	4,388,768	-	-	4,388,768	-	-	-
11	Panadura P.S	WP	20,000,000	-	-	-	-	20,000,000	-
12	Kuliyapitiya P.S	NWP	4,293,000	-	-	-	-	-	4,293,000
13	Kesbawa U.C	WP	10,000,000	-	-	-	10,000,000	-	-
14	Negambo M.C	WP	38,840,000	-	-	-	-	38,840,000	-
15	Bentota P.S	SP	7,250,000	-	-	-	-	7,250,000	-
16	Narammala P.S	NWP	1,356,000	-	1,356,000	-	-	-	-
17	Kegalle P.S	SAB	860,610	-	-	-	-	860,610	-
18	Udubaddawa P.S	NWP	3,500,000	-	-	-	-	3,500,000	-
19	Ayagama P.S	SAB	4,800,000	-	-	-	-	4,800,000	-
Total			847,905,438	42,896,000	1,356,000	28,388,768	10,000,000	733,989,758	31,274,912

Table 6.1.3 : LOAN DISBURSEMENTS - PROVINCE WISE**YEAR -2021**

Province	Amount (Rs.)	Percentage (%)
Western	70,463,000	08
North Western	691,888,148	82
Sabaragamuwa	48,556,610	06
Southern	25,622,680	03
North Central	11,375,000	01
Total	847,905,438	

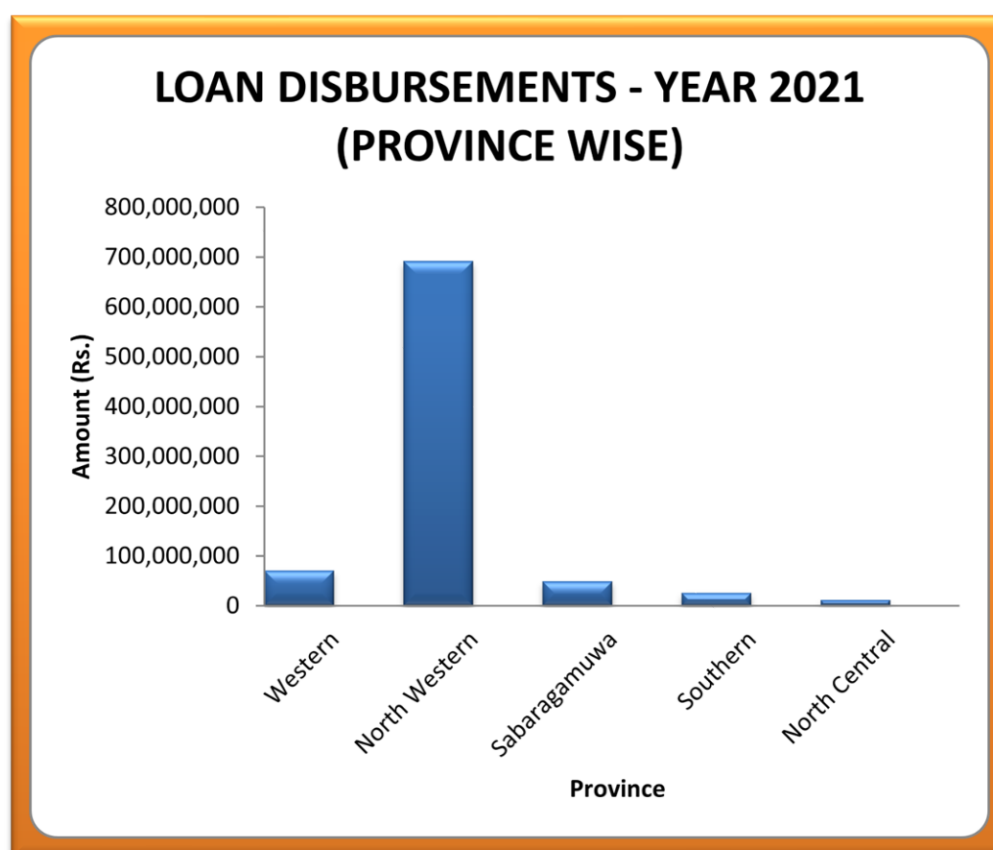
**Chart 6.1.3 : Province Wise Loan Disbursement Summary**

Table 6.1.4 : LOAN DISBURSEMENTS – YEAR 2021
COUNCIL WISE

Council	Amount (Rs.)	Percentage (%) of the Total
Municipal Councils	438,690,000	52
Urban Councils	272,889,148	32
Pradeshiya Sabas	136,326,290	15
Total	847,905,438	

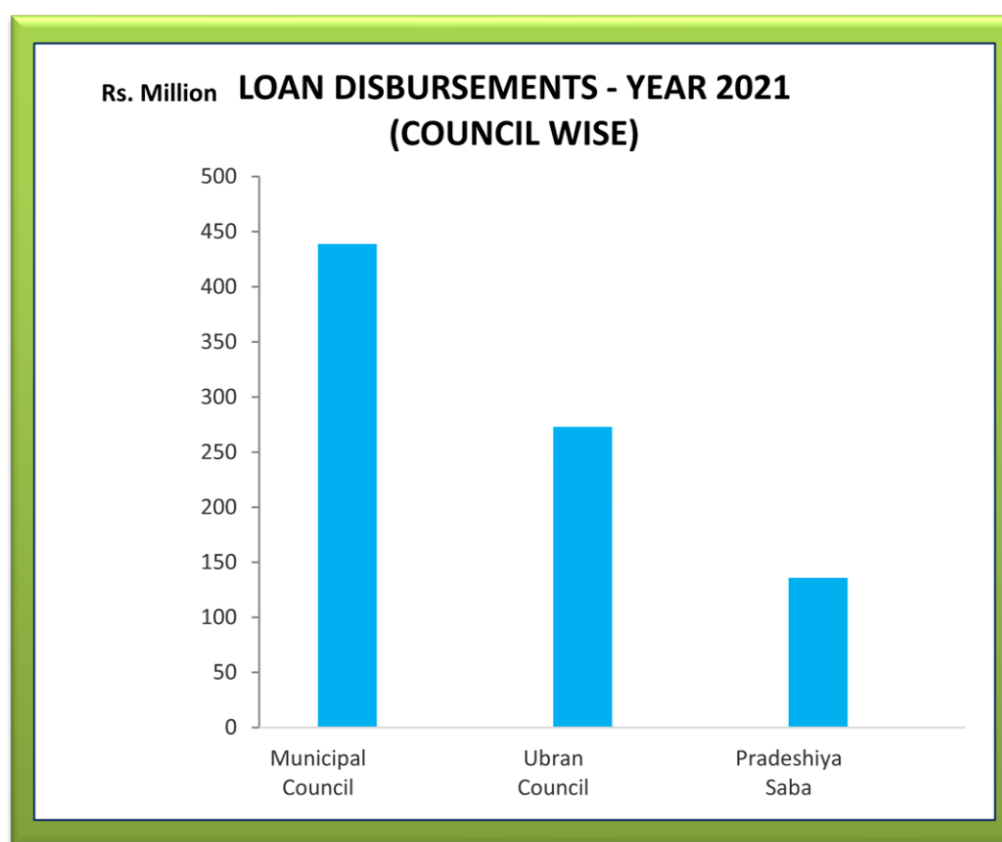


Chart 6.1.4 : Council Wise Loan Disbursement Summary

LOAN RECOVERIES

Rs.498.8 million and Rs.168.4 million was recovered being capital and interest due from loans granted by LLDF own Operations. Further Rs.107.8 million and Rs.58.0 million recovered, being capital and interest on ADB Loan No.1632.SRI (SF). Rs.2.7 million and Rs.3.8 million was recovered under PCDP as capital and interest during the year. Further Rs.176.6 million and Rs.46.3 million recovered, being capital and interest on ADB Loan No.2201 Local Government Infrastructure Improvement Project.

Table 6.1.5 : Loan Recovery Progress - 2021

(Rs.Million)

PROJECT	RECOVERY CAPITAL	RECOVERY INTEREST	TOTAL
LLDF	498.8	168.4	667.2
PCDP	2.7	3.7	6.4
UDLIHP	107.8	58.0	165.8
LGIIIP	176.6	46.3	222.9
TOTAL	785.9	276.4	1062.3

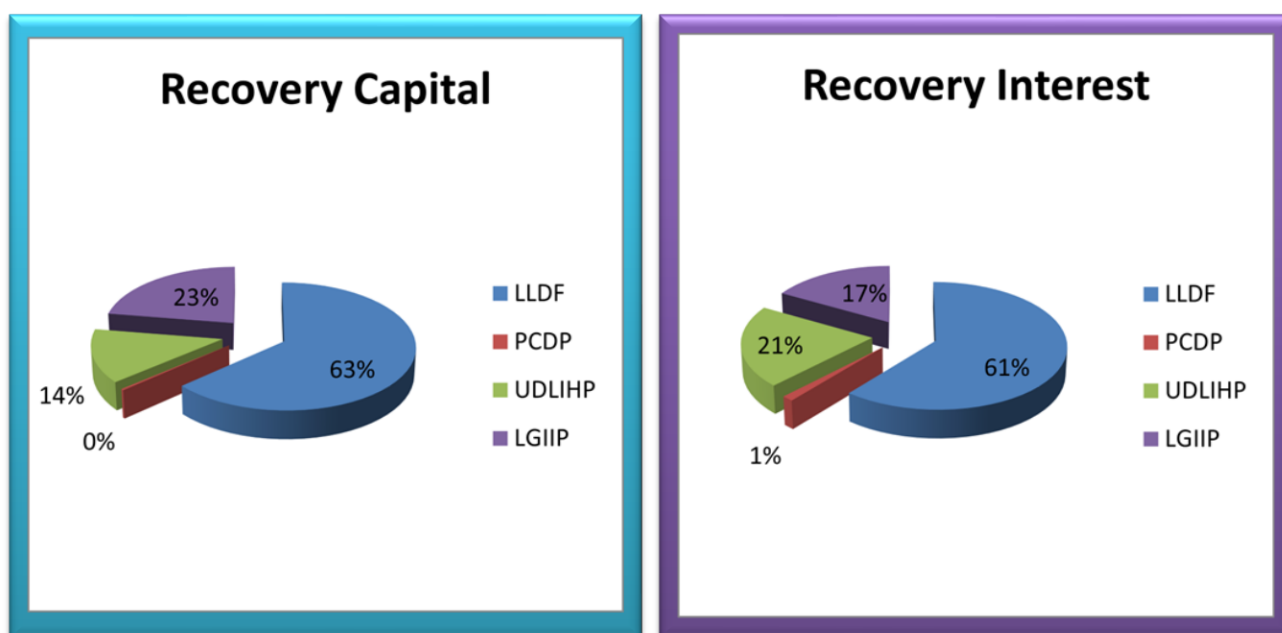


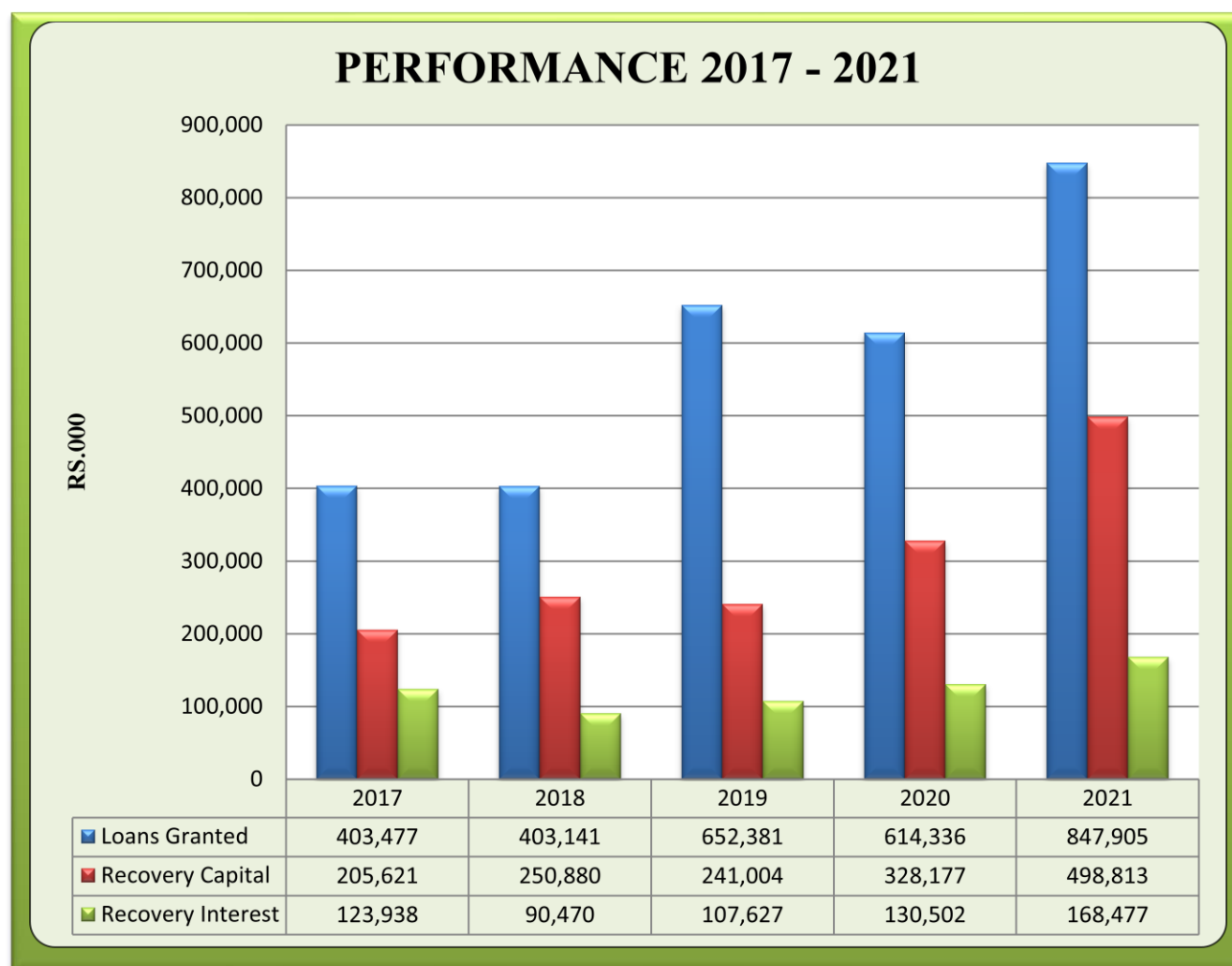
Chart 6.1.5 : Loan Recovery Progress

LLDF Local Loans and Development Fund
PCDP Perennial Crop Development Project
UDLIHP Urban Development & Low Income Housing Project
LGIIP Local Government Infrastructure Improvement Project

Local Loans and Development Fund
Table 6.1.6 : Performance 2017 – 2021
 (Except ADB Funded Projects)

Year	Loans Granted	Recovery capital	Recovery Interest
2017	403,477	205,621	123,938
2018	403,141	250,880	90,470
2019	652,381	241,004	107,627
2020	614,336	328,177	130,502
2021	847,905	498,813	168,477

Chart 6.1.6 : Performance 2017 - 2021





6:2 FINANCIAL REVIEW

INCOME – YEAR 2021

The fund has earned a Gross Income of Rs.149 million on operations (Including ADB funded projects). Net surplus before tax of Rs.87.3 million has been earned after making operational expenses and amortization of Rs.74.9 million to LA's under LGIIP project. Further the impairment for loans and receivables for the year 2021 is Rs.9.9 million.

Table 6.2.1 : Summary of Financial Performance for last 05 Years

	2017	2018	2019	2020	(Rs.000) 2021
Revenue					
Interest Income	404,872	400,599	266,181	274,899	275,545
Interest Expencess	(138,318)	(137,858)	(134,813)	(131,744)	(126,304)
Net Interest Income	266,554	262,741	131,367	143,154	149,240
Other Income	3,526	2,221	133,929	86,101	63,434
Total Operating Income	270,080	264,962	265,296	229,255	212,674
Impairment Charges	(34,762)	4,583	4,687	7,646	9,956
Net Operating Income	304,842	260,378	260,607	221,610	202,718
Administrative Expenses	(46,531)	(40,393)	(41,073)	(38,151)	(40,505)
Net Grant amortization	(245,395)	(187,976)	(153,588)	(115,998)	(74,910)
Operating Profit Before Tax	12,916	32,008	65,948	67,460	87,303
Tax Expenses	(3,168)	(593)	(3,274)	(2,495)	(16,237)
Profit After Tax	16,083	32,601	69,222	69,955	71,066
Total Comprehensive Income	15,814	32,803	69,385	69,122	67,821
Retained Earnings At the End of the year	{276,095}	(243,042)	(176,018)	(105,196)	(37,315)



REPAYMENT TO THE TREASURY – YEAR 2021

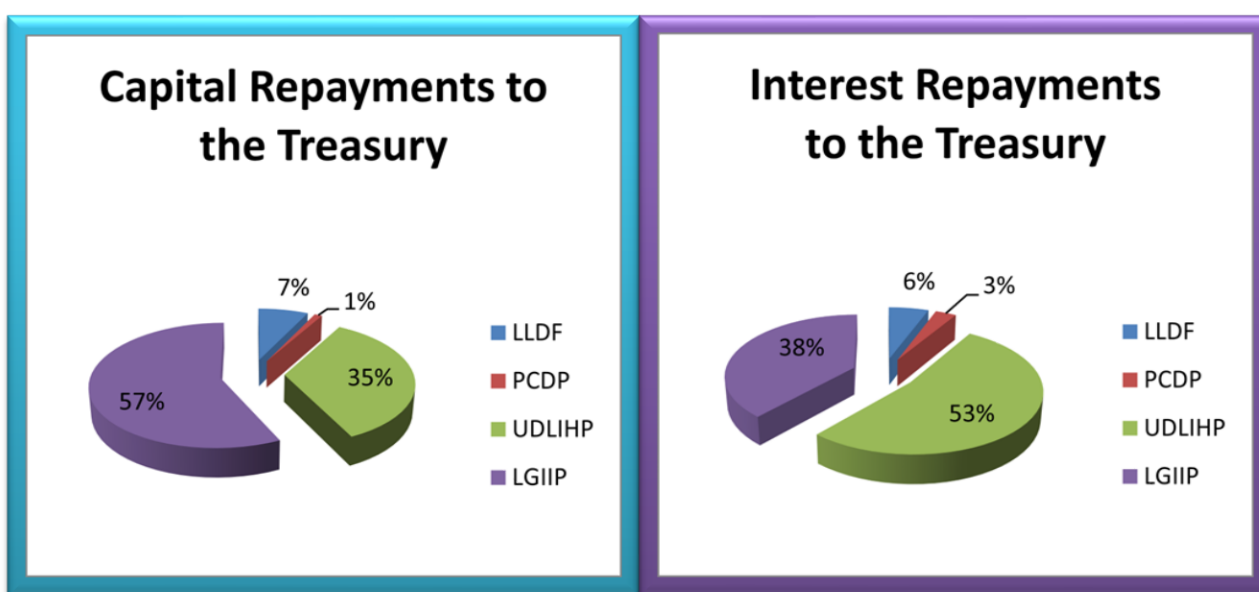
During the year Capital repayment to the Treasury was Rs.18.3 million, and the interest payment to the Treasury was Rs.7.2 million for loans obtained under LLDF and Rs.88.6 million has been paid to the Treasury as capital and Rs.66.6 million as interest under UDLIHP. The Rs.146.2 million has been paid to the Treasury as capital and Rs.48.5 has been paid to the Treasury as interest under LGIIP Loans. Further under ADB Loan No.899 SRI (SF) Rs.2.8 million has been paid to the Treasury as capital and Rs.3.8 million has been paid as interest.

Table 6.2.2 : Progress of Loan Repaymnts – year 2021

(Rs.Million)

PROJECT	CAPITAL REPAYMENT	INTEREST PAYMENTS	TOTAL
LLDF	18.3	7.2	25.5
PCDP	2.8	3.8	6.6
UDLIHP	88.6	66.6	155.2
LGIIP	146.2	48.5	194.7
Total	255.9	126.1	382.0

Chart 6.2.2 : Loan Recovery Progress



LLDF	Local Loans and Development Fund
PCDP	Perennial Crop Development Project
UDLIHP	Urban Development & Low Income Housing Project
LGIIP	Local Government Infrastructure Improvement Project



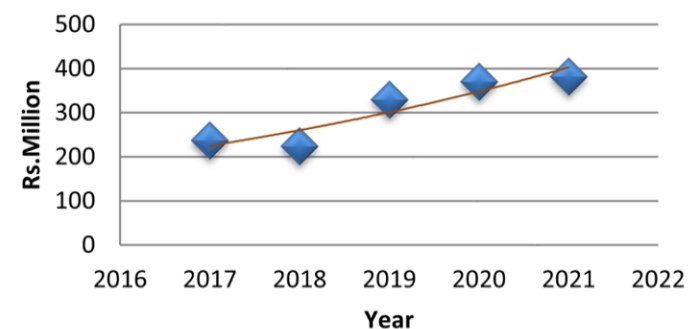
LOCAL LOAN AND DEVELOPMENT FUND
Table 6.2.3 : LOAN REPAYMENT TO THE TREASURY
2017 - 2021

Rs. Million

Year	Capital				Interest				Total
	LLDF	PCDP	UDLIHP	LGHP	LLDF	PCDP	UDLIHP	LGHP	
2017	21.6	4.62	74.0	16.7	13.5	1.9	68.3	36.8	237.4
2018	21.3	2.13	73.6	20.6	11.9	4.4	64.1	26.3	224.3
2019	21.1	2.3	90.8	80.6	10.3	4.2	76.2	43.9	329.4
2020	20.6	2.5	87.7	121.0	8.8	4.0	78.3	47.4	370.3
2021	18.3	2.8	88.6	146.2	7.2	3.8	66.6	48.5	382.0
Total	102.9	14.35	414.7	385.1	51.7	18.3	353.5	202.9	1543.4

LLDF Local Loan and Development Funds
PCDP Preennial Crop Development Project
UDLIHP Urban Development and Low Income Housing Project
LGHP Local Government Infrastructure Improvement Project

Loan Repayments to the Treasury





LOCAL LOAN & DEVELOPMENT FUND
Table 6.2.4 : LOAN REPAYMENTS TO THE TREASURY
(LLDF LOANS) 2017 – 2021

Rs. 000

Year	Capital	Interest
2017	21.6	13.6
2018	21.3	11.9
2019	21.1	10.3
2020	20.6	8.8
2021	18.3	7.2

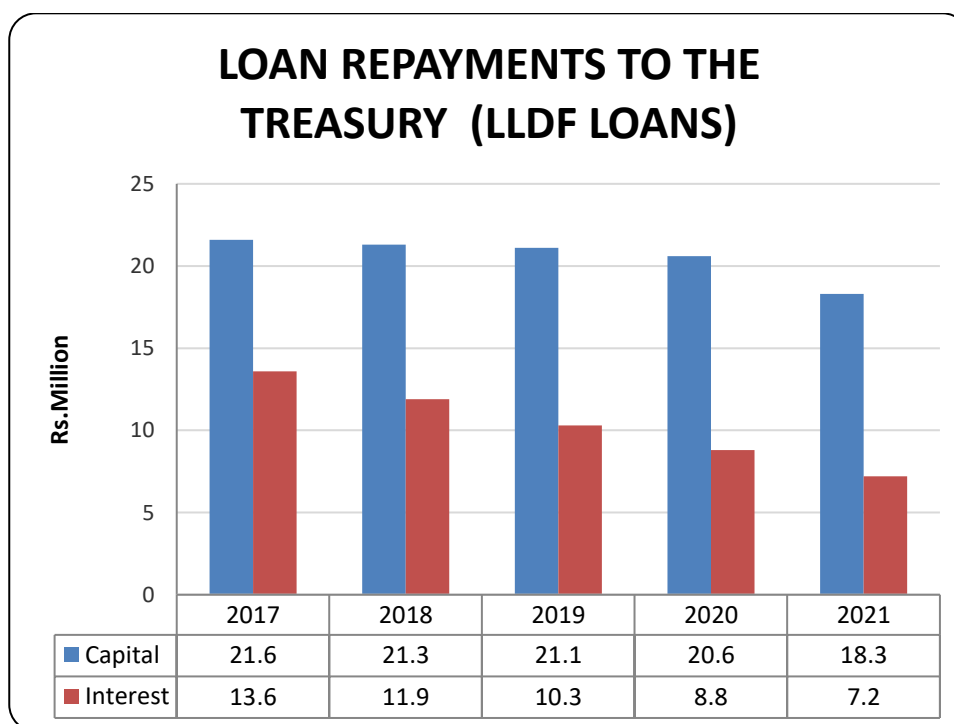


Chart 6.2.4 : Loan Repayment to the Treasury (LLDF)



**Table 6.2.5 : LOAN REPAYMENTS TO THE TREASURY
2017 – 2021
PERENNIAL CROP DEVELOPMENT PROJECT (PCDP)**

Rs. Million		
Year	Capital	Interest
2017	4.62	1.9
2018	2.13	4.4
2019	2.33	4.2
2020	2.5	4.0
2021	2.8	3.8

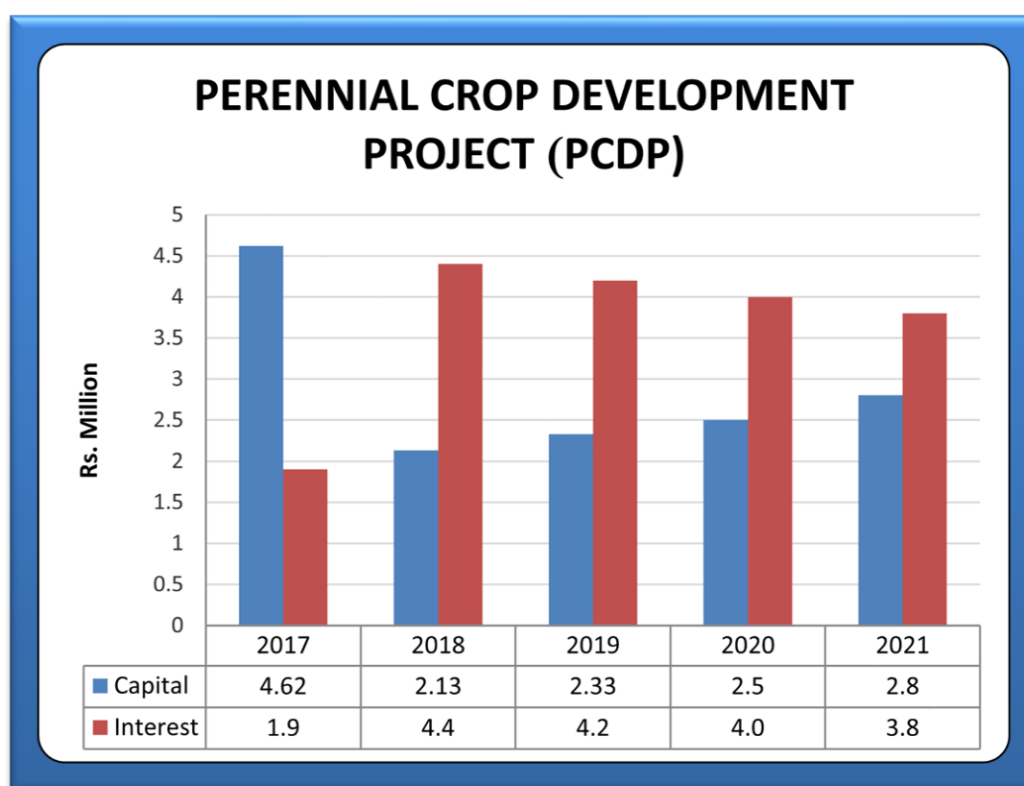


Chart 6.2.5 : Loan Repayment to the Treasury (PCDP)



**Table 6.2.6 : LOAN REPAYMENTS TO THE TREASURY
2017 – 2021
URBAN DEVELOPMENT AND LOW INCOME HOUSING ROJECT
(UDLIHP)**

Rs. 000		
Year	Capital	Interest
2017	74.0	68.3
2018	73.6	64.1
2019	90.8	76.2
2020	87.7	78.3
2021	88.6	66.6

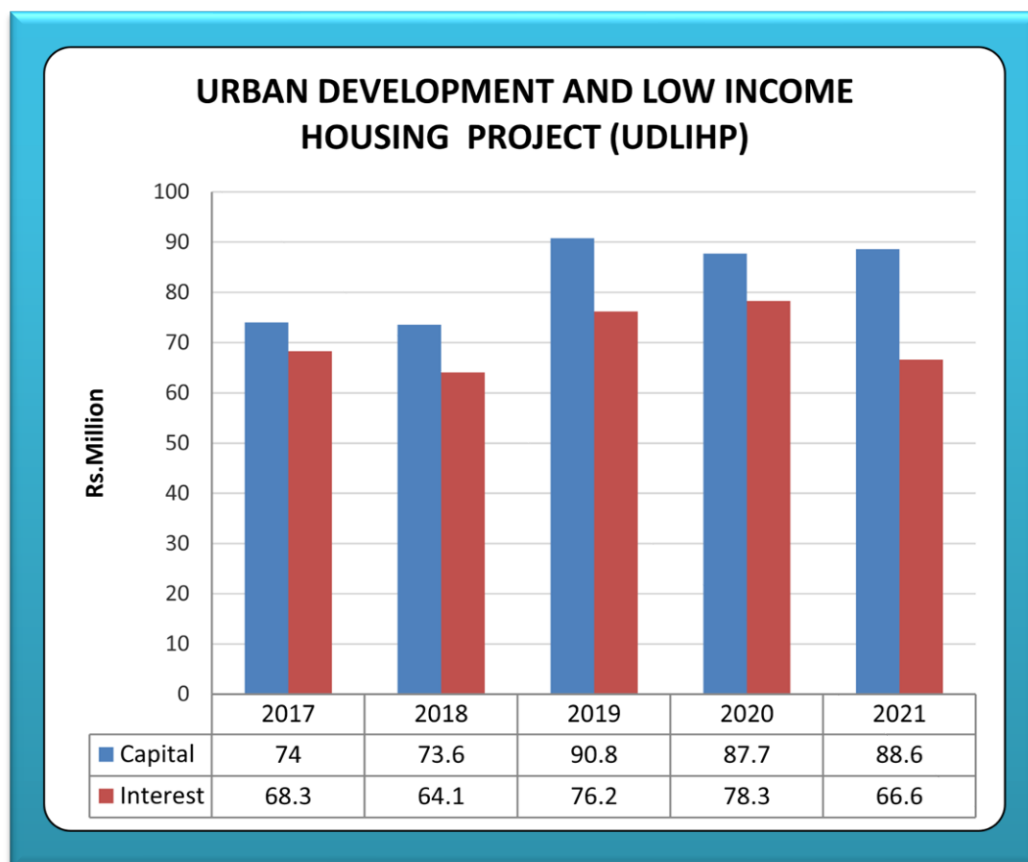


Chart 6.2.6 : Loan Repayment to the Treasury (UDLIHP)



**Table 6.2.7 : LOAN REPAYMENTS TO THE TREASURY
2017 – 2021
LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT PROJECT
(LGIIP)**

Rs. Million

Year	Capital	Interest
2017	16.7	36.8
2018	20.6	26.3
2019	80.6	43.9
2020	121.0	47.4
2021	146.2	48.5

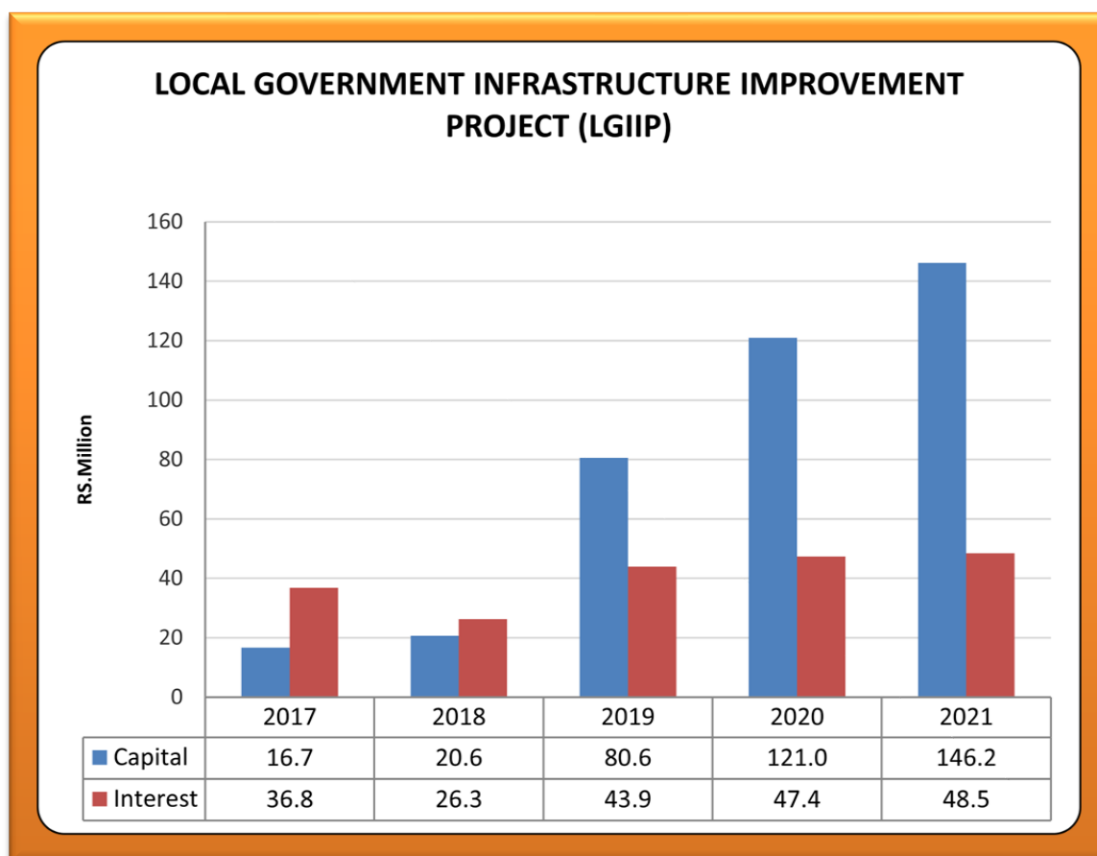


Chart 6.2.7 : Loan Repayment to the Treasury (LGIIP)



07. AUDIT AND MANAGEMENT COMMITTEE REPORT - 2021

As per the section 41 of the National Audit Act No 19 of 2018, The Audit & Management Committee is responsible for the responsibility of the Chief Accounting Officer. 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/55 of 14.12.2010. 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.

(01) Financial Statements for the year 2020

Financial Statements for 2020 was tabled and reviewed.

(02) Reviewed Detailed Audit Report for the year 2020

Reviewed the detailed Auditor General's Report for the year 2020 and instructions given to the management to take actions to rectify the issues and deficiencies pointed out in the report.

(a) Post of the Director of the Institution

Granting instructions to revise the scheme of recruitment of the institution enabling to appoint an officer permanently to the post of Director, since appointments are made constantly from year 2010 to act in the post of Director of this institution

(b) Payment of salaries and travelling allowances to the Acting Director/ Chief Executive Officer inconsistent to the laws, rules and regulations.

Granting instructions to take necessary action for the recovery of salaries and travelling allowances obtained inconsistent to laws, rules and regulations in 2015- 2016 by Mr. S.A.N.R.Subasingha, an officer in Accountant Service, who was an acting Director of the institution

(03) Annual Report - Year 2020

Providing guidance and counsel to present the Annual Report 2020 to the Parliament.

(04) Monitored compliance with the statute, regulations, rules and circulars

Instructions issued for the preparation of the Corporate Plan. C.E.O was instructed to obtain Board approval for delegation of functions for financial control for year 2021 as per the F.R 135.



(05) Effectiveness of systems and controls

Management was advised that the budgets in operation to be further developed in order to operate as a control system. The recovery procedure of outstanding loans should also be reviewed and the C.E.O was instructed to take the necessary steps.

(06) Ammendment of Scheme of Recruitment

The Committee has advised to the management to obtaining approval of the Department of Manageent Service for revised Scheme of Recruitment (SOR).

(07) Recovery of Non Performing Loans

Actions has been taken to summon the heads of Local Authorities and Heads of the Provincial Level to discuss the overdue Loans and Committee recommendation was to reschedule the loans. Further Committee recommended to the Board to take legal action against the default parties.

(08) Software for Loan and Financial Management

LL&DF is supposed to be the leading financial provider for Local Community making significant impact on Local Level infrastructure development would equip itself with innovative Loan & Financial Management software that will help LL&DF to optimize it's IT setup and secure a lasting advantage in ever competitive finance sector. Accordingly action has been taken to upgrade the existing Loan Management System and advised to report on the current progress of the computer system.

(09) Reviewed external Audit Query – 2020/2021

Instructions has been given to the management and guide the relevant matters to be corrected by discussing the matters highlighted in the Audit queries.

(10) Sustainable Development Goals

Instructions given to the Management to prepare Key Performance Indicators (KPI's) to evaluate all employees of the Organization.

Committee Members - Year 2021

Ms.A.A.I.P.Adhikari	Treasury Representative	Chairman
Ms.J.M.C.Jayanthi Wijethunga	Chief Secretary (Western Province)	Member
Mr.A.D.K.Guruge	Hon.Minister's Nominee	Member
Mr.A.Danapala	National Audit Office	Observer
Mr.B.Abeyrathne	Internal Auditor, Ministry of Finance	Convener



FINANCIAL STATEMENTS AND INFORMATION



Report of the Auditor General

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Local Loan Development Fund for the year ended 31 December 2021 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Local Loans Development Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the comprehensive statement of income, statement of the change in equity, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion the accompanying financial statements give a true and fair view of the financial position of the Local Loan Development Fund as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

(a) The difference in the values shown in ledger accounts and schedules in relation to loan balances to be recovered, which are included in the loans and amounts receivable in the statement of financial position is Rs. 1,111,512.

(b) The profit has marked an increase by Rs. 7,597,467 as a result of understating the expenses for damages by the above amount and the loans and receivable amounts have also been overstated by Rs. 7,597,467.

(c) Even though an amount of Rs. 20,572,935, which is income tax to be received, has been included in the value of other assets, information has not been submitted in the audit for verification of the above.



(d) When the profit is adjusted for the identification of differed leased assets, the expenditure for damages of Rs. 9,956,340, which has been accounted in the year, has been amounted to Rs.34,694,072 and even though the income tax rate of the year is 28%, 10% tax rate has been applied for adjusting differed taxes. Due to these reasons, the differed leased assets has been understated in the statement of financial position by Rs. 5,223,916 and an expense of Rs. 3,400,207 has been shown for the differed tax income.

(e) The profit of the year under review has been reduced by Rs. 632,710 as a result of debiting same amount to the income from loan interests of LLDF-PS by a single journal entry.

(f) The profit of the year has marked an increase by Rs. 683,272 as a result of crediting an amount of Rs. 4,484,631 to the income from loan interest account of LLDF instead of the amount of Rs. 3,801,359, which is to be credited.

(g) The profit of the year under review has been reduced by Rs. 1,734,668 as a result of debiting same amount to the income from loan interests of LGIIP by a single journal entry.

(h) The profit of the year has marked an increase by Rs. 1,976,246 as a result of crediting an amount of Rs. 9,420,913 to the income from loan interest account of LGIIF instead of the amount of Rs. 7,444,668, which is to be credited.

(i) An amount of Rs. 241,578 has been debited to the contingent interest account of LGIIP by a single journal entry and the said account is overstated by the same amount.

(j) The profit of the year has marked an increase by Rs. 275,811 as a result of crediting an amount of Rs. 7,714,845 to the income from loan interest account of UDLIHP instead of the amount of Rs. 7,439,034, which is to be credited.

(k) Even though it has been mentioned in the lifetime assessment report that 11% is taken as the basis for the discounts factor in the calculation of the expenses for the gratuity, the expenses for gratuity has been understated by Rs. 176,986 as a result of calculating the cost of interest taking 7.6% as the basis for discount factor. Under such circumstances, the loss in the life time calculation has also been understated by the above amount in other comprehensive income.

(l) The amount of Rs. 436,800, which has been paid in year 2022 for the printing of annual report of year 2020, has not been accounted as an accrued expense identifying it as an expense of year 2021. Under such circumstances, the expenses and other liabilities of the year have been understated by Rs. 436,800.



(m) The amount of Rs. 4,197,514, which is the grant amortization of LGIIP in the adjustments made in the calculation of net cash flow from operational activities, has been adjusted twice (Deducted).

(n) The amount of Rs. 57,990,871, which is the value identified as the income from investment of the year under investment activities, has been included in the statement of income but it is not the income from investment received in cash.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3. Other information, which are included in the annual report of year 2021 of the Fund

Other information means the information, which are included in the annual report-2021 of the Local Loan and Development Fund to be submitted to me after the date of this audit report but not included in financial statements and my audit report in this regard. The Management is responsible for these other information. Other information are not covered by my opinion on the financial statements and I do not make any certification or opinion on that matter.

My responsibility in relation to my audit on financial statements is to refer the other information whenever they are available, and further to consider whether such other information are not tallied adequately with financial statements as per the knowledge gained by me in another way or in auditing.

If I determine that there are material misstatements in the annual report when reading annual report-2021 of the Fund, they should be communicated with the parties responsible for the management for making necessary rectifications. If material misstatements, which are not further rectified, are found, I would include them in the report, which I submit to the Parliament in due course as per Article 154 (6) of the Constitution.

,

1.4 Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of Fund.

1.5 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.



- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

2.1. National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

2.1.1. I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Fund as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.

2.1.2. The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

2.1.3. The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

2.2. Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

2.2.1. to state that any member of the governing body of the Fund has any direct or indirect interest in any contract entered into by the Fund which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of



2.2.2. to state that the Fund has not complied with any applicable written law, general and special directions issued by the governing body of the Fund as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018;

2.2.3. to state that the Fund has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018

2.2.4. to state that the resources of the Fund had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramaratne
Auditor General



LOCAL LOANS AND DEVELOPMENT FUND STATEMENTS OF COMPREHENSIVE INCOME

For The Period ended 31 December 2021

	Notes	2021 (Rs.)	2020 (Rs.)
Interest Income	4	275,545,152	274,899,048
Interest Expense	5	126,304,798	131,744,730
Net Interest Income		149,240,354	143,154,319
Other Operating Income	6	63,434,258	86,101,946
Total Operating Income		212,674,612	229,256,264
Impairment Charges	13	9,956,340	7,646,096
Net Operating Income		202,718,272	221,610,168
Personnel expenses	7	26,846,049	26,614,719
Depreciation PPE	14	1,758,084	1,485,164
Grant Amortization	8	74,910,206	115,998,584
Other Operating Expenses	9	11,900,825	10,051,521
Operating Profit Before Tax		87,303,108	67,460,179
Tax Expense	10	16,237,444	(2,495,352)
Profit For The Year		71,065,664	69,955,531
Other Comprehensive Income			
Actuarial loss on Define benefit plan	18	(156,388)	832,666
Deferred Tax Expense	10	3,400,207	
Total Comprehensive Income		67,821,845	69,122,865

The Accounting Policies from page 08 to 17 and notes to the financial statements from page 18 to 33 form an integral part of the Financial Statements.





LOCAL LOANS AND DEVELOPMENT FUND STATEMENTS OF FINANCIAL POSITION

Year ended 31 December 2021

	Notes	2021 (Rs.)	2020 (Rs.)
ASSETS			
Cash and Cash Equivalents	11	86,751,731	172,730,801
Balances with Banks	12	948,000,000	998,000,000
Loan and Receivables	13	3,454,569,841	3,418,230,960
Property Plant and Equipments	14	2,908,640	2,793,524
Deferred Tax Asset	17.1	6,143,529	9,543,736
Other Assets	15	109,801,288	206,139,809
TOTAL ASSETS		4,608,175,029	4,807,438,829
EQUITY AND LIABILITIES			
LIABILITIES			
Interest bearing Borrowings & Treasury			
Payables	16	4,590,440,319	4,846,265,690
Current Tax liability	17	16,237,444	-
Deferred Tax liability	17.1	-	-
Post employment benefit obligation	18	5,912,476	5,205,473
Other liability	19	32,900,492	61,164,460
TOTAL LIABILITIES		4,645,490,731	4,912,635,622
EQUITY			
Retain Earnings		(37,315,702)	(105,196,793)
TOTAL LIABILITIES AND EQUITY		4,608,175,029	4,807,438,829

The Accounting Policies from page 08 to 17 and notes to the financial statements from page 18 to 33 form an integral part of the Financial Statements.

These Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards and certify that the above financial statements give a true and fair view of the state of affairs of Local Loans & Development Fund as at 31st December 2021 and its surplus for the period then ended.


S.M.D.B. Samarakoon
Act. Chief Executive Officer


K.A.D.D. Kahandawala
Deputy Director (Finance & Administration)

The Board of Commissioners is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board by;


R.M.P. Rathnayake
Chairman


A.A.I.P. Adhikari
Treasury Representative

28th February 2022
Colombo



LOCAL LOANS AND DEVELOPMENT FUND STATEMENTS OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 (Rs.)	2020 (Rs.)
Cash flows from operating activities			
Profit Before Tax		87,303,108	67,460,179
Adjustments for;			
Depreciation & Amortization		76,668,290	117,483,748
Impairment Charges		9,956,340	7,646,096
Grant Amortization Income		(4,197,514)	-
Other Income		(4,474,276)	-
Gratuity & Accrued Expense		-	1,231,900
Interest Expense		126,304,798	131,744,730
Investment Income		(57,990,871)	-
Operating profit before working capital changes		233,569,876	325,566,654
(Increase)/Decrease other assets		(25,505,193)	169,700,101
Increase/(Decrease) other liability		28,263,967	(157,744,104)
Cash generated from operations		236,328,650	337,522,651
Net proceeds of loan debtors		(46,295,221)	5,440,138
Tax paid		-	-
Gratuity paid		-	-
Net cash generated /(used in) from operating activities		190,033,429	342,962,789
Cash flows from investing activities			
Purchase PPE		-	-
Proceeds from sale of PPE		-	-
Net purchase assets		(1,873,200)	-
Net Investments		50,000,000	80,988,196
Investment Income received		57,990,871	(9,670,024)
Net cash generated /(used in) from investing activities		106,117,671	71,318,172
Cash flows from financing activities			
Borrowing Capital & Interest paid		(382,130,169)	(370,409,352)
Net cash generated /(used in) from financing activities		(382,130,169)	(370,409,352)
Net increase /(Decrease) in Cash & Cash Equivalent		(85,979,069)	43,871,609
Cash & Cash Equivalent at the beginning of the year		172,730,801	128,859,193
Cash & Cash Equivalent at the end of the year		86,751,731	172,730,801
Cash & Cash Equivalent	11	86,751,731	172,730,801
		<u>86,751,731</u>	<u>172,730,801</u>

The Accounting Policies from page 08 to 17 and notes to the financial statements from page 18 to 33 form an integral part of the Financial Statements.





LOCAL LOANS AND DEVELOPMENT FUND STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Retained Earnings Rs.	Total Equity Rs.
As at 01st January 2020	(176,018,785)	(176,018,785)
Adjustment to Retain Earnings	33,795	33,795
Profit for the year	69,955,531	69,955,531
Other comprehensive income (net of tax)	832,666	832,666
Balance as at 31 December 2020	<u>(105,196,793)</u>	<u>(105,196,793)</u>
As at 01st January 2021	(105,196,793)	(105,196,793)
Adjustment to Retain Earnings	59,246	59,246
Profit for the year	71,065,664	71,065,664
Other comprehensive income (net of tax)	(3,243,819)	(3,243,819)
Balance as at 31 December 2021	<u>(37,315,702)</u>	<u>(37,315,702)</u>

The Accounting Policies from page 08 to 17 and notes to the financial statements from page 18 to 33 form an integral part of the Financial Statements.



LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

4	INTEREST INCOME		Schedule	2021	2020
				Rs.	Rs.
	Interest from loans and advances		5-9	275,545,152	274,899,048
				<u>275,545,152</u>	<u>274,899,048</u>
5	INTEREST EXPENSE			2021	2020
				Rs.	Rs.
	Interest expense for treasury borrowings		15-18	126,304,798	131,744,730
				<u>126,304,798</u>	<u>131,744,730</u>
6	OTHER OPERATING INCOME			2021	2020
				Rs.	Rs.
	Interest Income from Investments		1-4	57,990,871	82,866,162
	Staff loan Interest		10	969,111	872,360
	Penalty Income(Liquidated damages) & Other			4,474,276	2,363,423
				<u>63,434,258</u>	<u>86,101,946</u>
7	PERSONNEL EXPENSES			2021	2020
				Rs.	Rs.
	Salaries & Other benefits			23,076,061	22,890,317
	EPF & ETF			2,906,597	2,913,329
	Gratuity expense		21	863,391	811,074
				<u>26,846,049</u>	<u>26,614,719</u>
8	GRANT AMORTIZATION-LGIIP			2021	2020
				Rs.	Rs.
	Debit Grant		13	103,031,380	159,544,271
	Less: Credit Grant			28,121,174	43,545,687
	Net Grant Amortization			<u>74,910,206</u>	<u>115,998,584</u>
9	OTHER OPERATING EXPENSES			2021	2020
				Rs.	Rs.
	Office administration & establishment expenses			11,250,281	9,976,953
	Professional & legal expenses			243,667	74,568
	Auditor's remuneration			406,877	-
				<u>11,900,825</u>	<u>10,051,521</u>





LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

		2021 Rs.	2020 Rs.
10	TAX EXPENSES		
	Current tax provision	16,237,444	-
	Under Provision / (Over Provision) of Current Taxes	-	-
	Deferred Tax Expense/(Income)	3,400,207	2,495,352
		<u>19,637,651</u>	<u>2,495,352</u>
10.1	Accounting profit /(loss) before tax	87,303,108	67,460,179
	Aggregated disallowed items	37,315,547	9,942,334
	Aggregated allowable items	(1,722,039)	(1,364,548)
	Adjusted profit from Business	122,896,616	76,037,966
	Interest income	(57,990,871)	(82,866,162)
	Total statutory income	64,905,745	(6,828,196)
	Less -Allowable losses	-	-
	Taxable income	<u>64,905,745</u>	<u>(6,828,196)</u>
10.2	Statutory Tax Rate		
	Current income tax expenses	16,237,444	-
	(Tax Liability for the period @ rate - 28%)		
	Income tax is calculated the rates mentioned as above of the assessable profit for the year.		





LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

		2021 Rs.	2020 Rs.
11 CASH AND CASH EQUIVALENTS	Schedule		
Savings account with banks	1	50,357,626	112,382,234
Current account with banks	2	36,394,105	60,348,568
Reverse Repurchase	3	-	-
		<u>86,751,731</u>	<u>172,730,801</u>
12 BALANCES WITH BANKS		2021 Rs.	2020 Rs.
Fixed deposits with banks	4	948,000,000	998,000,000
		<u>948,000,000</u>	<u>998,000,000</u>
13 LOANS AND RECEIVABLES		2021 Rs.	2020 Rs.
Loan receivables (Note 13.1)		4,369,617,357	4,323,322,136
Less : Allowance for Impairment (Note 13.2)		915,047,516	905,091,176
		<u>3,454,569,841</u>	<u>3,418,230,960</u>
13.1 Analysis - (By Projects)			
LLDF	5	2,272,701,992	1,928,829,985
LGIIIP	6	518,039,065	696,755,931
PCDP	7	78,486,975	81,299,732
UDLIHP	8	1,477,564,464	1,590,088,617
NWSDB	9	5,541,380	5,752,255
Staff Loans	10	17,283,481	20,595,616
		<u>4,369,617,357</u>	<u>4,323,322,136</u>
13.2 Movement in impairment charge during the year			
As at 1 January		905,091,176	897,445,080
Written off during the year			
Charge for the year	11	9,956,340	7,646,096
As at 31 December		<u>915,047,516</u>	<u>905,091,176</u>





LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

14 PROPERTY PLANT AND EQUIPMENTS (Schedule 12)

Cost

Description	Cost as at 01.01.2021	Additions	Disposals/Transfer	Cost as at 31.12.2021
Office Equipment	1,725,753	-	-	1,725,753
Furniture and Fittings	1,748,813	-	-	1,748,813
Computer Hardware & Software	10,091,398	1,873,200	-	11,964,598
Motor Vehicle	7,995,000	-	-	7,995,000
Total	21,560,964	1,873,200	-	23,434,164

Accumulated Depreciation

Description	Balance as at 01.01.2021	Depreciation for the year	Disposals/Transfer	Balance as at 31.12.2021
Office Equipment	1,164,019	195,796	-	1,359,815
Furniture and Fittings	999,507	123,834	-	1,123,341
Computer Hardware & Software	8,608,914	1,438,454	-	10,047,368
Motor Vehicle	7,995,000	-	-	7,995,000
Total	18,767,441	1,758,084	-	20,525,525

Written Down Value

2,793,524

2,908,640



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LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

		2021	2020
		Rs.	Rs.
15 OTHER ASSETS	Schedule		
Liquidated Damage Receivable		1,480,731	1,480,731
LGIP Grant to Local Authorities	13	41,258,082	144,289,463
Inventory	14	114,082	114,082
Other Receivables		66,948,393	60,255,533
		<u>109,801,288</u>	<u>206,139,809</u>
16 INTEREST BEARING BORROWINGS & TREASURY PAYABLES		2021	2020
		Rs.	Rs.
LLDF	15	90,219,520	108,580,057
LGIP	16	3,139,381,466	3,285,594,291
PCDP	17	45,871,377	48,647,314
UDLIHP	18	1,314,967,956	1,403,444,028
		<u>4,590,440,319</u>	<u>4,846,265,690</u>
17 CURRENT TAX LIABILITY		2021	2020
		Rs.	Rs.
Balance as at the beginning of the Year		-	(10,461,178)
Add : Provision for the Current Year/Adjustment under provision	19	16,237,444	-
Less: Payment made during the Year		-	-
Withholding Tax		-	6,807
		<u>16,237,444</u>	<u>(10,454,370)</u>
17.1 Deffered tax Asstt / (Liability)	10	2021	2020
		Rs.	Rs.
Deffered Tax Assets	20	6,576,914	7,684,904
Deffered Tax Liabilities		433,385	1,858,832
		<u>6,143,529</u>	<u>9,543,736</u>
18 POST EMPLOYMENT BENEFIT OBLIGATION		2021	2020
		Rs.	Rs.
As at 1st January		5,205,473	3,561,733
Amount recognize in income statement		863,391	811,074
Amount recognize in other comprehensive income	21	(156,388)	832,666
Payments made/payable during the year		-	-
As at 31st December		<u>5,912,476</u>	<u>5,205,473</u>





LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

	2021 Rs.	2020 Rs.
18.1 Amount recognize in income statement		
Current service cost	395,616	437,092
Interest cost	467,775	373,982
	<u>863,391</u>	<u>811,074</u>
18.2 The principal assumptions used for compute the gratuity liability are as follows:		
Rate of interest	11.0%	7.6%
Salary increment rate	Fixed increment per annum	Fixed increment per annum
Staff turnover	5.0%	5%
Retirement age	<u>62 years</u>	<u>60 years</u>
18.3 Sensitivity of Assumptions Employed in Computation		
A quantitative sensitivity analysis for significant assumption as at 31 December 2021 is as shown below:		
Assumptions	Discount rate	
Sensitivity Level	1% increase	1% decrease
Impact on defined defined benefit liability	5,526,951	6,348,825
19 OTHER LIABILITIES	2021 Rs.	2020 Rs.
GOSL Grant	11,260,897	39,382,071
LGIIP-Capital Grant	1,116,994	5,314,508
Deferred tax payable	-	-
Pre-paid Debtors & Advances	19,856,245	15,817,931
Other payable	666,356	649,949
	<u>32,900,492</u>	<u>61,164,460</u>





LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

20. EXPENSE BREAK-UP

	2021 Rs.	2020 Rs.
PERSONNEL EXPENSES		
Staff Salaries	16,091,679	16,189,727
Adjustment Allowance	-	-
C.O.L Allowance - LLDF	3,385,200	3,432,000
Staff bonus	555,000	536,250
Allowance For Chairman	690,885	692,135
Allowance for Board of Commissioners	389,773	441,600
Overtime & Holly day Pay	127,063	90,021
Development Ass. Traveling	476,396	327,065
Allowance for DO	54,600	57,600
Travelling Expen-Office staff	94,994	60,895
E.P.F.	2,325,278	2,330,663
E.T.F.	581,319	582,666
Staff Health Insurance	1,210,474	1,063,025
Gratuity expenses	863,391	811,074
	<u>26,846,049</u>	<u>26,614,719</u>

	2021 Rs.	2020 Rs.
OTHER OPERATING EXPENSES		
Staff Welfare	383,842	186,063
Meeting Expenses	-	98,615
Audit Expenses	406,877	-
Postage, Telephone & Internet	464,484	494,274
Stationery / Printing	889,776	205,401
Vehicle Maintenance	570,821	307,310
Fuel	556,237	332,904
Vehicle Insurance	71,982	74,399
Electricity	438,394	492,347
Security Charges	1,133,485	1,007,677
Water Supply	13,969	27,348
Cleaning service Charges	277,200	216,000
Maintenance & Equipments	77,304	54,900
Maintenance & Building	3,825	4,850
Staff Training & Developments	18,000	87,500
Computer Maintenance	663,136	832,629
Tax & Rates	-	-
Office rent	5,588,000	5,280,000
Awareness programmes	-	-
Professional charges	204,667	30,000
Press Notification	-	165,511
Legal Expenses	39,000	44,568
Stamp Duty	300	225
Bank Charges	600	10,500
Other Expenses	98,925	98,500
	<u>11,900,825</u>	<u>10,051,521</u>





LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

21 COMMITMENT AND CONTINGENCIES

To the best of knowledge and information available to the Board, the Fund does not have any significant commitments and contingencies as at the reporting date.

- 21.1 Set out below is the unresolved legal claim against the Fund as at December 31, 2020 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome. However, further adjustments are made to Financial Statements if necessary on the adverse effects of legal claim based on the professional advice obtained on the certainty of the outcome and also based on a reasonable estimate.

(i) Court action has been initiated by an ex-employee of the Fund in Rathnapura Labour Court in proceedings No.6R/7455/2015 as a labour tribunal case. Next hearing of the cases is fixed for 18th January 2022.

22 EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen and no material event have occurred during the period between the balance sheet date and the date in which the account has been signed and no event is required to disclosure or adjust to the Financial Statements.

23 RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows;

23.1 Transactions with Key Management Personnel (KMP)

As per the Sri Lanka Accounting Standard (LKAS -24) - "Related Party Disclosures", the KMPs include those who are having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Commissioners of the Fund have been classified as KMPs of the Company.

23.2 Key management personnel compensation	2021 Rs.	2020 Rs.
Short term employment benefits		
Short Term Employee Benefits	<u>1,080,658</u>	<u>1,133,735</u>

* Further, the company has not provided any non cash benefits to Key Management Personnel in terms of employment contracts with them.

* Fund has not entered into any transactions, arrangements and agreements involving Key Management Personnel (KMPs), their Close Family Members (CFMs) and their related entities.





LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

24.LLDF Segmental Comprehensive Income

	2021				
	LLDF	LGHP	PCDP	UDLIHP	Consolidation-LLDF
Interest Income	174,803,990	89,343,102	3,780,866	66,577,177	334,505,135
Interest Expense	7,237,148	48,530,130	3,801,687	66,735,833	126,304,798
Net Interest Income	167,566,842	40,812,972	(20,821)	158,656	208,200,337
Other Operating Income	4,474,276	-	-	-	4,474,276
Total Operating Income	172,041,117	40,812,972	(20,821)	158,656	212,674,612
Impairment Charges	5,199,002	1,197,736	179,546	3,380,056	9,956,340
Net Operating Income	166,842,115	39,615,236	(200,366)	(3,538,713)	202,718,272
Personnel expenses	21,716,857.92	5,151,846.99	(2,628)	20,027	26,846,049
Depreciation PPE	1,422,185.38	337,382	(172)	1,312	1,758,084
Grant Amortization	-	74,910,206	-	-	74,910,206
Other Operating Expenses	9,627,059.59	2,283,808.19	(1,165)	8,878.06	11,900,825
Operating Profit Before Tax	134,076,012	(43,068,007)	(196,401)	3,508,496	87,303,108

	2020				
	LLDF	LGHP	PCDP	UDLIHP	Consolidation-LLDF
Interest Income	144,092,126	133,194,551	4,030,562	77,320,332	358,637,571
Interest Expense	8,775,382	47,445,528	4,020,722	71,503,097	131,744,730
Net Interest Income	135,316,745	85,749,022	9,840	5,817,234	226,892,841
Other Operating Income	2,363,423	0	-	-	2,363,423
Total Operating Income	137,680,168	85,749,022	9,840	5,817,234	229,256,264
Impairment Charges	3,427,599	1,248,382	144,472	2,825,643	7,646,096
Net Operating Income	134,252,569	84,500,641	(134,633)	2,991,591	221,610,168
Personnel expenses	15,983,507	9,954,738	1,142	675,332	26,614,719
Depreciation PPE	891,917	555,498	64	37,685	1,485,164
Grant Amortization	-	115,998,584	-	-	115,998,584
Other Operating Expenses	6,036,455	3,759,584	431	255,051	10,051,521
Operating Profit Before Tax	111,340,690	(45,767,763)	(136,270)	2,023,523	67,460,179

*Impairment charges shared based on Outstanding capital as at financial year end

**Operational Cost Sharing based on Total Operating Income of each segment





LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

25. FAIR VALUES

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Company uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation

- Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Set out below is a comparison, by class, of the carrying amount and fair values of the fund's financial instruments that are not carried at fair value in the financial statements.

As at 31 December	Fair value hierarchy	Carrying Value		Fair Value	
		2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Financial Assets					
Cash and Cash Equivalents	Level 2	86,751,731	172,730,801	86,751,731	172,730,801
Balances with Banks		948,000,000	998,000,000	948,000,000	998,000,000
Loan and Receivables		3,454,569,841	3,418,230,960	1,331,886,220	1,314,928,107
Other Assets		109,801,288	206,139,809	109,801,288	206,139,809
Total		4,599,122,860	4,795,101,570	2,476,439,239	2,691,798,717
Financial liabilities					
Interest bearing Borrowings & Treasury Payables	Level 2	4,590,440,319	4,846,265,690	1,355,569,749	1,431,115,691
Other liability		32,900,492	61,164,460	32,900,492	61,164,460
Total		4,623,340,811	4,907,430,150	1,388,470,242	1,492,280,150

- a) For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to cash in hand, balances with banks, other financial assets, bank overdraft and other financial liabilities without a specific maturity.
- b) Loan receivables with fixed interest rates were fair valued using average lending rate for average loan tenure. Conversely, interest bearing borrowings and treasury payables discounted using weighted average cost of funds.





LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

26. MATURITY OF ASSETS AND LIABILITIES

	2021			2020		
	Less than one year Rs.	More than one year Rs.	Total carrying value Rs.	Less than one year Rs.	More than one year Rs.	Total carrying value Rs.
Assets						
Cash and Cash Equivalents	86,751,731	-	86,751,731	172,730,801	-	172,730,801
Balances with Banks	948,000,000	-	948,000,000	998,000,000	-	998,000,000
Loan and Receivables	414,548,381	3,040,021,460	3,454,569,841	410,421,549	3,007,809,411	3,418,230,960
Property Plant and Equipments	-	2,908,640	2,908,640	-	1,308,359	1,308,359
Deferred Tax Assets	-	6,143,529	6,143,529	-	9,543,736	9,543,736
Other Assets	68,543,206	41,258,082	109,801,288	61,850,346	144,289,463	206,139,809
Total assets	1,517,843,318	3,090,331,711	4,608,175,029	1,643,002,697	3,162,950,969	4,805,953,665
Liabilities						
Interest bearing Borrowings & Treasury Payables	241,981,083	4,348,459,236	4,590,440,319	106,645,482	4,739,620,208	4,846,265,690
Current Tax liability	-	16,237,444	16,237,444	-	-	-
Deferred Tax liability	-	-	-	-	-	-
Post employment benefit obligation	-	5,912,476	5,912,476	-	6,849,212	6,849,212
Other liability	20,522,601	12,377,891	32,900,492	16,467,880	44,696,579	61,164,460
	262,503,684	4,382,987,047	4,645,490,731	123,113,362	4,791,166,000	4,914,279,362





LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

27. RISK MANAGEMENT

27.1 Introduction

The fund has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the fund's exposure to each of the above risks, the fund's objectives, policies and processes for measuring and managing risk.

27.2 Credit Risk

Credit risk is the risk of financial loss to the fund if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from fund's receivables in terms of loan receivable and deposits with banks & financial institutions.

Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

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The fund establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables in terms of loans and receivables. The fund policy on impairment consists of allowance for a collective impairment established for similar receivables in term of their credit risk on project basis where the loss event has occurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

27.2.1 Fair value of collateral and credit enhancements held

The following table shows the fair value of collateral and credit enhancements held by the fund.

As at 31 December

	2021		2020	
	Maximum exposure to credit risk Rs.	Net exposure Rs.	Maximum exposure to credit risk Rs.	Net exposure Rs.
Cash and cash equivalents	86,751,731	86,751,731	172,730,801	172,730,801
Balances with banks and financial institutions	948,000,000	948,000,000	998,000,000	998,000,000
Loan and receivables	3,454,569,841	3,454,569,841	3,418,230,960	3,418,230,960
Other financial assets	109,801,288	109,801,288	206,139,809	206,139,809
	<u>4,599,122,860</u>	<u>4,599,122,860</u>	<u>4,795,101,570</u>	<u>4,795,101,570</u>



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LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

27. RISK MANAGEMENT (Contd...)

27.2 Credit Risk (Contd...)

27.2.2 Credit quality by class of financial assets

	Neither past due nor impaired	Past due but not impaired	Individually Impaired	Total
a) As at 31 December 2021				
Assets	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	86,751,731			86,751,731
Balances with banks	948,000,000			948,000,000
Loan and receivables	3,454,569,842	34,694,072	880,353,444	4,369,617,357
Other assets	109,801,288			109,801,288
Total financial assets	4,599,122,860	34,694,072	880,353,444	5,514,170,376
b) As at 31 December 2020				
Assets	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	172,730,801			172,730,801
Balances with banks	998,000,000			998,000,000
Loan and receivables	3,422,918,878	34,251,263	866,151,995	4,323,322,136
Other assets	206,139,809			206,139,809
Total financial assets	4,799,789,488	34,251,263	866,151,995	5,700,192,746





LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

27. RISK MANAGEMENT (Contd...)

27.3 Liquidity Risk

Liquidity risk is the risk that the fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The company uses the maturity analysis all the financial instruments to manage the liquidity risk.

a) Exposure to Liquidity Risk

The fund relies on borrowing as its primary source of funding. Fund actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

b) Management of Liquidity Risk

The fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking financial position of the fund while maintaining regulatory requirements and debt covenants agreed with the fund providers.

27.3.1 The maturity analysis of financial liabilities based on undiscounted gross outflow is reflected below,

a)	As at 31 December 2021	Carrying amounts	Gross nominal outflow	On demand	Up to 3 months	3 to 12 months	More than 1 year
	Interest bearing Borrowings & Treasury Payables	4,590,440,319	4,695,179,317	-	-	346,720,080	4,348,459,236
	Other liability	32,900,492	32,900,492	-	348,356	318,000	32,234,136
		<u>4,623,340,811</u>	<u>4,728,079,809</u>	<u>-</u>	<u>348,356</u>	<u>347,038,080</u>	<u>4,380,693,373</u>
b)	As at 31 December 2020	Carrying amounts	Gross nominal outflow	On demand	Up to 3 months	3 to 12 months	More than 1 year
	Interest bearing Borrowings & Treasury Payables	4,846,265,690	4,967,044,408	-	-	227,424,200	4,739,620,208
	Other liability	61,164,460	61,164,460	-	420,827	229,123	60,514,510
		<u>4,907,430,150</u>	<u>5,028,208,868</u>	<u>-</u>	<u>420,827</u>	<u>227,653,323</u>	<u>4,800,134,718</u>



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LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

27. RISK MANAGEMENT (Contd...)

27.4 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk of the fund mainly comprises of interest rate risk and currency risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

27.4.1 The table below analyses the fund's interest rate risk exposure on non-trading financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.

a) As at 31 December 2021	On Demand	Less than 3 Months	4 to 12 Months	1 to 5 Years	Total as at 31 December 2021
Interest earning assets					
Cash and cash equivalents	86,751,731	-	-	-	86,751,731
Balances with banks	-	848,000,000	100,000,000	-	948,000,000
Loan and receivables	-	103,637,095	310,911,286	3,040,021,460	3,454,569,841
Other assets	-	-	68,543,206	41,258,082	109,801,288
Total interest earning assets	86,751,731	951,637,095	479,454,492	3,081,279,542	4,599,122,860
Interest bearing liabilities					
Interest bearing borrowings & Treasury payables	-	-	241,981,083	4,348,459,236	4,590,440,319
Other liabilities	-	348,356	318,000	32,234,136	32,900,492
Total interest bearing liabilities	-	348,356	242,299,083	4,380,693,373	4,623,340,811
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	86,751,731	951,288,739	237,155,409	(1,299,413,830)	(24,217,951)





LOCAL LOANS AND DEVELOPMENT FUND NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

27. RISK MANAGEMENT (Contd...)

b) As at 31 December 2020	On Demand	Less than 3 Months	4 to 12 Months	More Than 01 Year	Total as at 31 December 2019
Interest earning assets					
Cash and cash equivalents	172,730,801	-	-	-	172,730,801
Balances with banks	-	998,000,000	-	-	998,000,000
Loan and receivables	-	102,605,387	307,816,162	3,007,809,411	3,418,230,960
Other assets	-	-	61,850,346	144,289,463	206,139,809
Total interest earning assets	172,730,801	1,100,605,387	369,666,508	3,152,098,874	4,795,101,570
Interest bearing liabilities					
Interest bearing borrowings & Treasury payables	-	-	252,858,307	4,593,407,383	4,846,265,690
Other liabilities	-	420,827	229,123	60,514,510	61,164,460
Total interest bearing liabilities	-	420,827	253,087,430	4,653,921,893	4,907,430,150
Gap in interest earning assets and interest bearing liabilities	172,730,801	1,100,184,560	116,579,078	(1,501,823,019)	(112,328,580)

27.4.2 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Statement of Comprehensive Income.

	2021		2020	
	Increase/ Decrease in Interest Rate	Effect on profit before tax	Increase/ Decrease in Interest Rate	Effect on Profit Before Tax
		Rs.		Rs.
Interest Rate	+ 1%	8,730,311	+ 1%	6,746,018
Interest Rate	- 1%	(8,730,311)	- 1%	(6,746,018)





LOCAL LOANS AND DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

1. REPORTING ENTITY

1.1. General information

Local Loans and Development Fund (LLDF) is a statutory body established by the Local loan and development ordinance No.22 of 1916. The registered office is located at No.24A, Ward Place, Colombo 07, Sri Lanka.

1.2. Principal activities and nature of operation

The principal activity of the fund is providing loan facilities for local authorities for purpose of public utility. Aim of LLDF is to become a leading financial institution for local level infrastructure financing.

2. BASIS OF PREPARATION

2.1. Basis for Consolidation

Sub activities of LLDF 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.

2.2. Functional and Presentation Currency

The consolidated financials are presented in Sri Lankan rupees and all values are rounded to a nearest rupee, except when otherwise indicated.

2.3. Statement of Compliance

The Financial Statements of the Fund comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka.



2.4. Responsibility for Financial Statements

The Board of Commissioners are responsible for the preparation and presentation of the financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2.5. Approval of Financial Statements by the Board of Commissioners

The Financial Statements of the fund as at for the year ended 31st December 2021 were authorized by the Board of Commissioners on 28th February 2022.

2.6. Basis of Measurement

The Financial Statements of the Fund have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position.

Items	Basis of Measurement
Defined benefit obligations	Recognized at the present value of the defined benefit obligation less the fair value of the plan assets



LOCAL LOANS AND DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

2.7. Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements of the Fund in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Some of the amounts reported for the previous period have been restated to correct an error.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the Financial Statements of the Fund are as follows.

2.7.1. Going Concern Basis of Accounting

The Board of Commissioners have made an assessment of the Fund's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Fund. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.7.2. Impairment losses on loans and receivables

The Fund reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.



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These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

Loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are then assessed collectively to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident.

2.7.3. Taxation

The Fund is subject to income tax and judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

2.7.4. Post-employment benefit obligations

The Post employment benefit obligation and the related charge for the year are determined using projected unit credit method. The method valuations involve making assumptions about discount rates, future salary increases, mortality rates etc. Due to the long term nature of such obligations these estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting period.

2.7.5. Useful –lives of property plant & equipment

The fund reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.8. Significant Accounting Policies

2.8.1. Taxation

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognized in the Statement of Comprehensive Income, except to the extent it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or in other comprehensive income.



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a) Current taxes

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto at the rates specified in Note 10.2 to the Financial Statements.

b) Deferred taxation

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

The net increase in the carrying amount of deferred tax liability net of deferred tax asset is recognized as deferred tax expense and conversely any net decrease is recognized as reversal to deferred tax expense, in the Statement of Comprehensive Income.



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2.8.2. Cash and Cash Equivalents

Cash and cash equivalents are cash in hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flows statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Financial instruments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.8.3. Property, Plant and Equipment

Cost

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. All items of property, plant and equipment are initially recorded at cost.

The cost of property, plant and equipment is the cost of acquisition or construction together with any expenses incurred in bringing the asset to its condition for its intended use. All other repair and maintenance costs are recognized in the profit or loss as incurred.

Depreciation

Depreciation is charged to Statement of Comprehensive Income so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method and not provided depreciation in the year of purchased. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the

effect of any change in estimate accounted for on a prospective basis. The estimated useful lives of property, plant and equipment are as follows;



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The class of tangible assets	Useful life
Furniture & Fittings	10 Years
Office Equipment	5 Years
Computers & Software	4 Years
Motor Vehicle	5 Years

De-recognition

Items of property, plant and equipment are de-recognized upon disposal or when no future economic benefits are expected from its use. Gain or loss arising on de-recognition of an item of property, plant and equipment is determined as the difference between the sales proceed and the carrying amount of the asset and is recognized in the Statement of Comprehensive Income.

2.8.4. Amortization of Debit and Credit grants

Credit grants represents the GOSL fund received from the LGIIP 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 LLDF should not be fallen to less than 5% of the before tax and net amortization profit.

2.8.5. Inventory

Inventory represents items value below Rs.5000 per each and cannot categorized under property, plant & equipment also consider life time of assets to categorize as inventory. If asset is not owning considerable life time, then cost taken as expense to Statement of Comprehensive Income.



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2.8.6. Post-employment benefit obligations

a) Defined benefit plan – Gratuity

Gratuity is a Defined Benefit Plan. The Fund annually measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method by using expert knowledge of Actuarial Valuer.

Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in other comprehensive income.

The gratuity liability is not internally or externally funded.

b) Defined contribution plans - Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations.

2.8.7. Provisions

Provisions are recognized when the fund has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.8.8. Other non-financial assets

All other non-financial assets are valued net of specific provision, where necessary, so as to reduce the carrying value of such assets to their estimated realizable value.

2.8.9. Other non-financial liabilities

Other Non-Financial Liabilities are recognized at their nominal amount.

2.8.10. Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Fund estimates the asset's recoverable amount. An asset's recoverable amount is higher of asset's fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash



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inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.8.11. Financial instruments – Initial recognition and subsequent measurement

The Fund's financial instruments consist of loans and receivables and other financial liabilities, of which accounting policies on subsequent measurement, impairment and re-recognition are set out below;

i) Financial assets

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate and determine the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the Effective Interest Rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the Statement of Comprehensive Income. The losses arising from impairment are recognized in the Statement of Comprehensive Income. Loans and receivables are presented in the Statement of Financial Position.



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De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when,

- i. The rights to receive cash flows from the asset have expired
- ii. The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either
 - (a) The Fund has transferred substantially all the risks and rewards of the asset, or
 - (b) The Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

For accounting purposes, the LLDF uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following.

- Significant financial difficulty of the customer (Local Authority)
- A breach of contracts such as a default of payment
- Where the LLDF grants the Local Authority a concession due to the LA experiencing financial difficulty
- It becomes probable that the Local Authority will encounter financial difficulties
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans
- Board of Commissioners has restricted the loans given to LA's

Individual assessed allowances

LLDF determines the allowances appropriate for each individually significant Loans and Receivables on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows.



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Impairment allowance are evaluated at each reporting date, unless unforeseen circumstance requires more careful attention. LLDF management determines the threshold limit of Rs.10 MN.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant loans and advances that have been assessed individually and found not to be impaired. Provide 1% allowance for debtors at amortized cost as at balance sheet date for collective impairment.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

ii) Financial liabilities

Financial liabilities within the scope of LKAS 39 are classified as interest bearing loans and borrowings, trade and other payables as appropriate. The Fund determines the classification of its financial liabilities at initial recognition.

The Fund recognizes financial liabilities in the Statement of Financial Position when the Fund becomes a party to the contractual provision of the liability and classifies financial liabilities as other financial liabilities in accordance with the substance of the contractual arrangements at the definitions of financial liabilities.



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De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange of modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the Statement of Comprehensive Income.

iii) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market

for the asset or liability. The principal or the most advantageous market

must be accessible by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities



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- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable for the purpose of fair value disclosures, the fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Board of Commissioners of the Fund determines the policies and procedures for both recurring fair value measurement, such as investment property, and other property, plant and equipment items measured at fair value.

External valuation specialists are involved for valuation of significant assets. Involvement of external valuation specialists are decided upon annually by the Board of Commissioners after discussion with and approval by the Management of the

Fund. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Board of Commissioners decides, after discussions with the external valuation specialists, which valuation techniques and inputs to use for each case.

At each reporting date, the Board of Commissioners analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies. For this analysis, the Board of Commissioners verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Board of Commissioners, in conjunction with the Fund's external valuation specialists, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.



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2.8.12. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the fund and the revenue and associated costs incurred or to be incurred can be reliably measured, regardless of when the payment is being made. The following specific criteria are used for the purpose of recognition of revenue.

a) Interest income and expenses

Interest income and expense are recognized in Statement of Comprehensive Income using accrued basis and the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset and liability. When calculating the effective interest rate, the fund estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

b) Other Income

Other Income accounted for on accrual basis. Other income included penalty and liquidated damages income, capital grant amortization and any other non-operational income.

2.8.13. Expenses recognition

Expenditure is recognized in the Statement of Comprehensive Income on the basis of direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

For the purpose of presentation of the Statement of Comprehensive Income the commissioners are of the opinion that the nature of expense method presents fairly the elements of the Fund's performance, and hence such presentation method is adopted. Repairs and renewals are charged to the Statement of Comprehensive Income in the year in which the expenditure is incurred



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2.9.14. Statement of Cash Flows

The cash flows statement has been prepared using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard LKAS - 7 'Statement of Cash Flows'.

Cash and cash equivalents comprise of cash in hand and cash at banks and other highly liquid financial assets which are held for the purpose of meeting short-term cash commitments with original maturities of less than three months which are subject to insignificant risk of changes in their fair value.

2.8.15. Related party disclosures

Transactions with related parties are conducted in the normal course of business

2.8.16. Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.