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உள்ளூர் கடன்கள் மற்றும் அபிவிருத்தி நிதியம்

LOCAL LOANS AND DEVELOPMENT FUND

2022

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வருடாந்த அறிக்கையும் கணக்கும்

ANNUAL REPORT AND ACCOUNTS

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பொது 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

2022

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

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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 concessionery 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 Public Administration, Home Affairs, Provincial Councils and Local Government (Provincial Councils and Local Government Division) .

BANKERS : Bank of Ceylon

STAFF

The following staff was employed by the Fund, as at 31st December 2022.

Designation	**No of Employeed**
Director	01
Deputy Director (Finance and Administration)	01
Deputy Director (Operation)	01
Assistant Accountant	01
Administrative Officer	01
Development Officer's	18
Management Assistant	07
Driver	02
Office Aide	01
Total	**33**

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 31.12.2022

Chairman

(01) Mr.M.M.P.K.Mayadunne - Secretary, Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government

Treasury Representative

(02) Ms.W.G.K.L.Chandrasekara - Deputy Director, Department of External Resource, 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.R.M.P.S.Ratnayake	Chief Secretary	(Eastern Province)
(08) Mr.P.B.M.Sirisena	Chief Secretary	(North Western Province)
(09) Mrs.Jayanthi Wijethunga	Chief Secretary	(Western Province)
(10) Mr M.P.Diranjan	Commissioner of Local Government	(NP)
(11) Mr.Ranil Wickramasekara	Commissioner of Local Government	(SP)
(12) Mr.K,P,L,A,Kariyawasam	Hon Minister's Nominee	
(13) Mr.Tennakoon Rusirupala	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&DFso 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
2018	84.5	67.6
2019	96.0	68.1
2020	100.9	62.0
2021	107.8	58.0
2022	112.6	52.8

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 LGIIP.

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
Pradeshiya 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
2018	162.9	91.2
2019	181.8	77.5
2020	186.2	62.5
2021	176.6	46.3
2022	134.3	33.6

OPERATIONAL AND FINANCIAL REVIEW

06. OPERATIONAL AND FINANCIAL REVIEW

6.1 OPERATIONAL PERFORMANCE IN THE YEAR 2022

Rs.900 million was allocated in the institutional Budget in 2022 for the purpose of granting loans to the Local Authorities. During the year total Loans granted to 16 Local Authorities were Rs.769.8 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 86% 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 methord 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 - 2022

	Category	Interest Rate	Amount (Rs.)	No of Projects
01	Construction of Market Buildings	12.0%	720,640,749	09
02	Construction of Crematorium	6.5%	8,990,000	01
03	Construction of Office Building & Public Library	7.0%	15,534,000	01
04	Installation of Solar Pannel System	7.0%	12,900,000	02
05	Purchase of Gully Bowser	12.0%	8,600,000	02
06	Construction of Conferrence Hall	7.0%	3,200,000	01
	Total		**769,864,749**	**16**

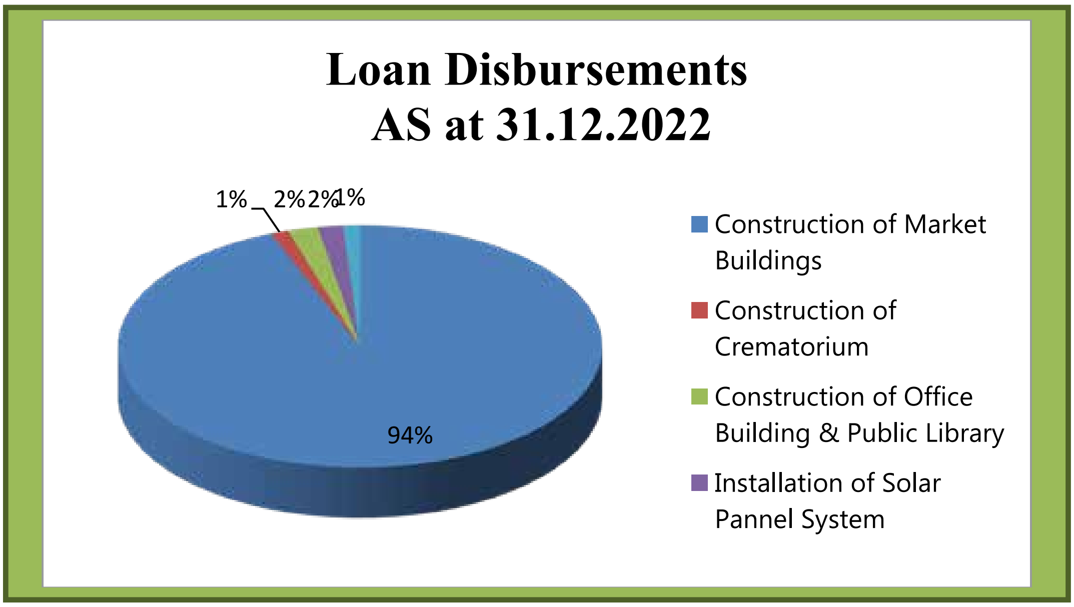


Table 6.1.2 : LOCAL LOANS AND DEVELOPMENT FUND LOAN RELEASED AS AT 31.12.2022

	Councils	Province	Amount (Rs.)	Purchase of Gully Bowser for Sewerage Projects	Construction of Conference Hall	Installation of Solar Pannel System	Construction of Crematorium	Construction of Market Buildings	Construction of Office Building and Public Library
01	Kegalle PS	SAB	3,231,000	-	-	-	-	3,231,000	-
02	Bentota PS	SP	14,003,897	-	-	-	-	14,003,897	-
03	Ratnapura MC	SAB	83,844,000	-	-	-	-	83,844,000	-
04	Kurunegala MC	NWP	332,358,000	-	-	-	-	332,358,000	-
05	Pasbagekorale PS	CP	3,200,000	-	3,200,000	-	-	-	-
06	Kekirawa PS	NCP	15,534,000	-	-	-	-	-	15,534,000
07	Kotikawatta PS	WP	8,990,000	-	-	-	8,990,000	-	-
08	Kuliyapitiya UC	NWP	222,436,852	-	-	-	-	222,436,852	-
09	Polonnaruwa MC	NCP	24,400,000	-	-	-	-	24,400,000	-
10	Panadura PS	WP	4,231,000	-	-	-	-	4,231,000	-
11	Maharagama UC	WP	8,100,000	-	-	8,100,000	-	-	-
12	Ayagama PS	SAB	4,960,000	-	-	-	-	4,960,000	-
13	Galewela PS	CP	4,800,000	-	-	4,800,000	-	-	-
14	Sooriyawewa PS	SP	7,000,000	7,000,000	-	--	-	-	-
15	Maskeliya PS	CP	1,600,000	1,600,000	-	-	-	-	-
16	Negambo MC	WP	31,176,000	-	-	-	-	31,176,000	-
	Total		**769,864,749**	**8,600,000**	**3,200,000**	**12,900,000**	**8,990,000**	**720,640,749**	**15,534,000**

Table 6.1.3 : LOAN DISBURSEMENTS - PROVINCE WISE

YEAR -2022

Province	Amount (Rs.)	Percentage (%)
Western	52,497,000	6.8%
North Western	554,794,852	72%
Sabaragamuwa	92,035,000	12%
Southern	21,003,897	03%
North Central	39,934,000	05%
Central	9,600,000	01%
Total	**769,864,749**	

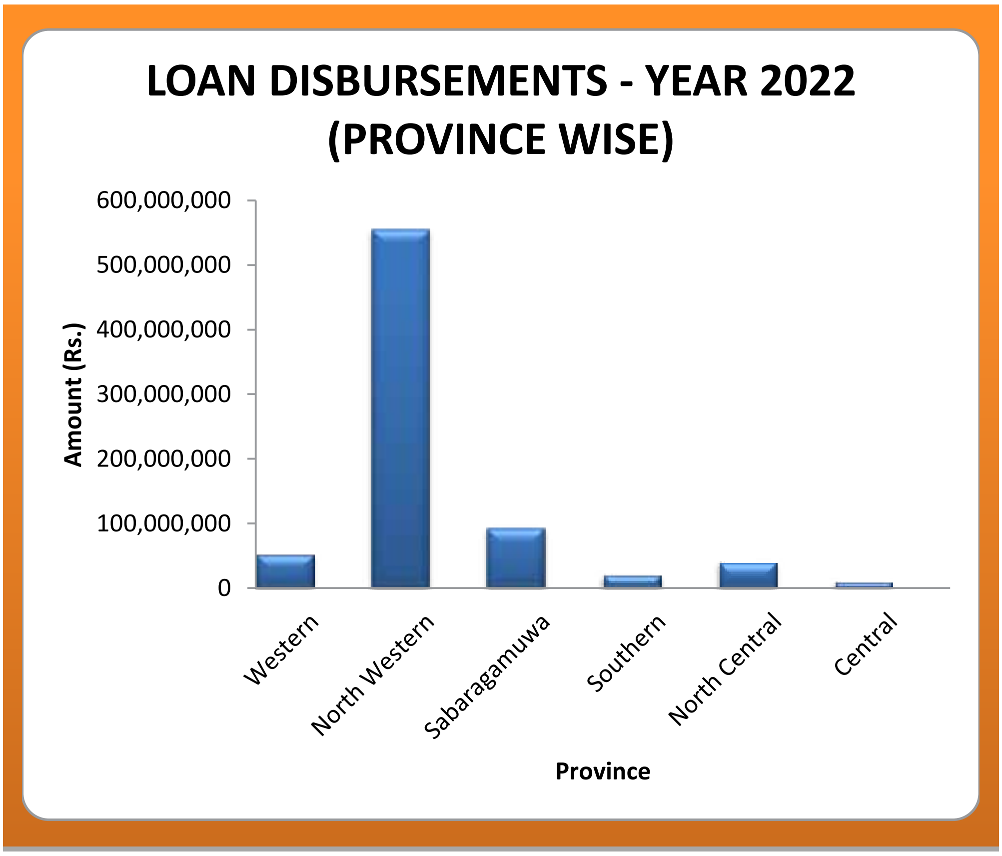


Chart 6.1.3 : Province Wise Loan Disbursement Summary

Table 6.1.4 : LOAN DISBURSEMENTS – YEAR 2022
COUNCIL WISE

Council	Amount (Rs.)	Percentage (%) of the Total
Municipal Councils	471,778,000	61
Urban Councils	221,966,852	29
Pradeshiya Sabas	76,119,897	10
Total	**769,864,749**	

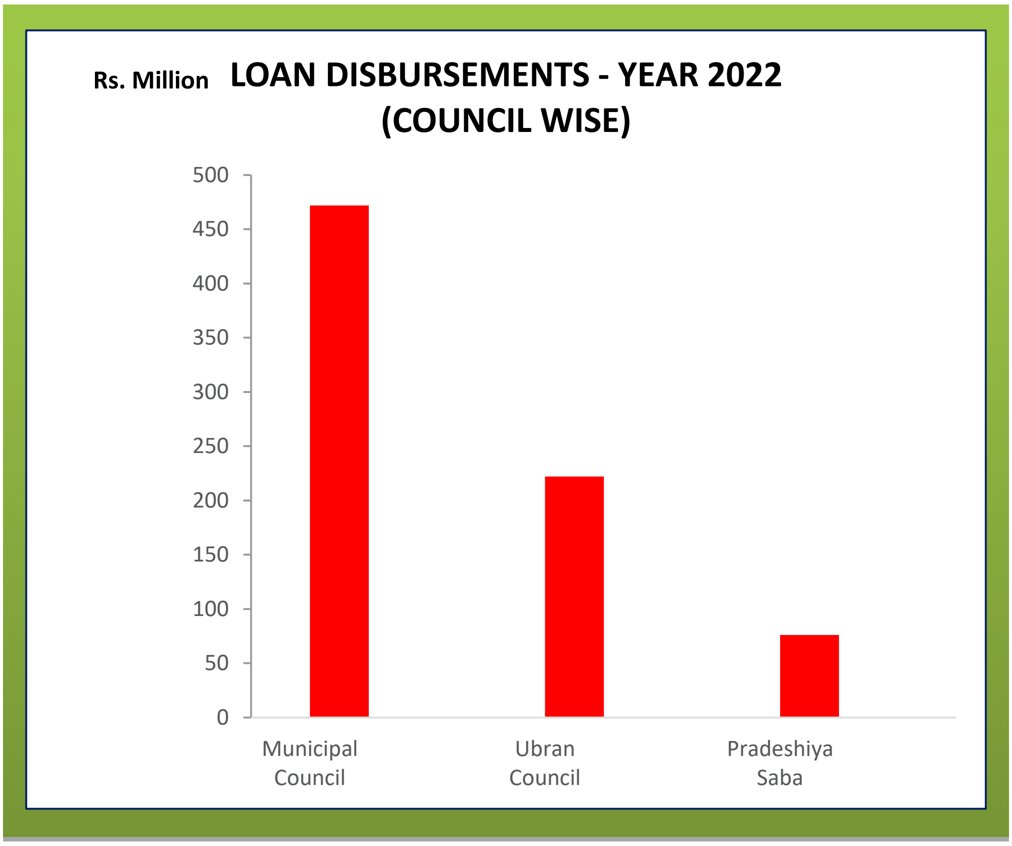


Chart 6.1.4 : Council Wise Loan Disbursement Summary

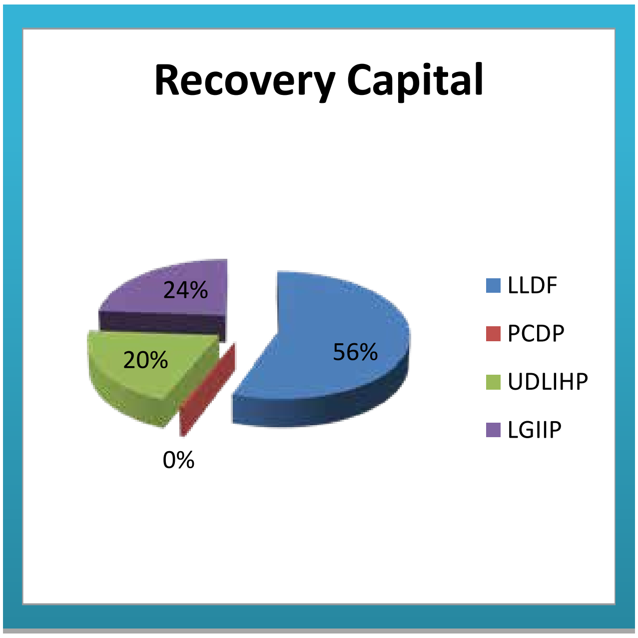
LOAN RECOVERIES

During the year 2022 Rs.314.7 million and Rs.170.6 million was recovered being capital and interest due from loans granted by LLDF own Operations. Further Rs.112.6 million and Rs.52.8 million recovered, being capital and interest on ADB Loan No.1632.SRI (SF). Rs.3.0 million and Rs.3.5 million was recovered under PCDP as capital and interest during the year. Further Rs.134.3 million and Rs.33.6 million recovered, being capital and interest on ADB Loan No.2201 Local Government Infrastructure Improvement Project.

Table 6.1.5 : Loan Recovery Progress - 2022

(Rs.Million)

PROJECT	RECOVERY CAPITAL	RECOVERY INTEREST	TOTAL
LLDF	**314.7**	**170.6**	**485.3**
PCDP	**3.0**	**3.5**	**6.5**
UDLIHP	**112.6**	**52.8**	**165.4**
LGIIP	**134.3**	**33.6**	**167.9**
TOTAL	**564.6**	**260.5**	**825.1**



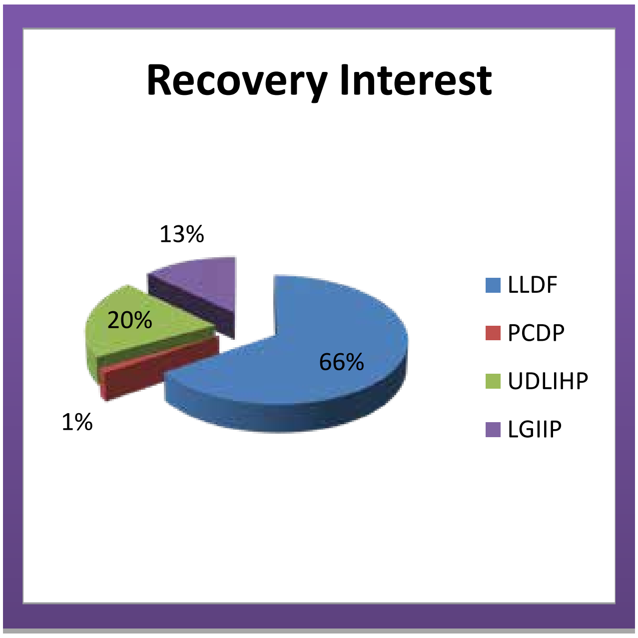


Chart 6.1.5 : Loan Recovery Progress

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

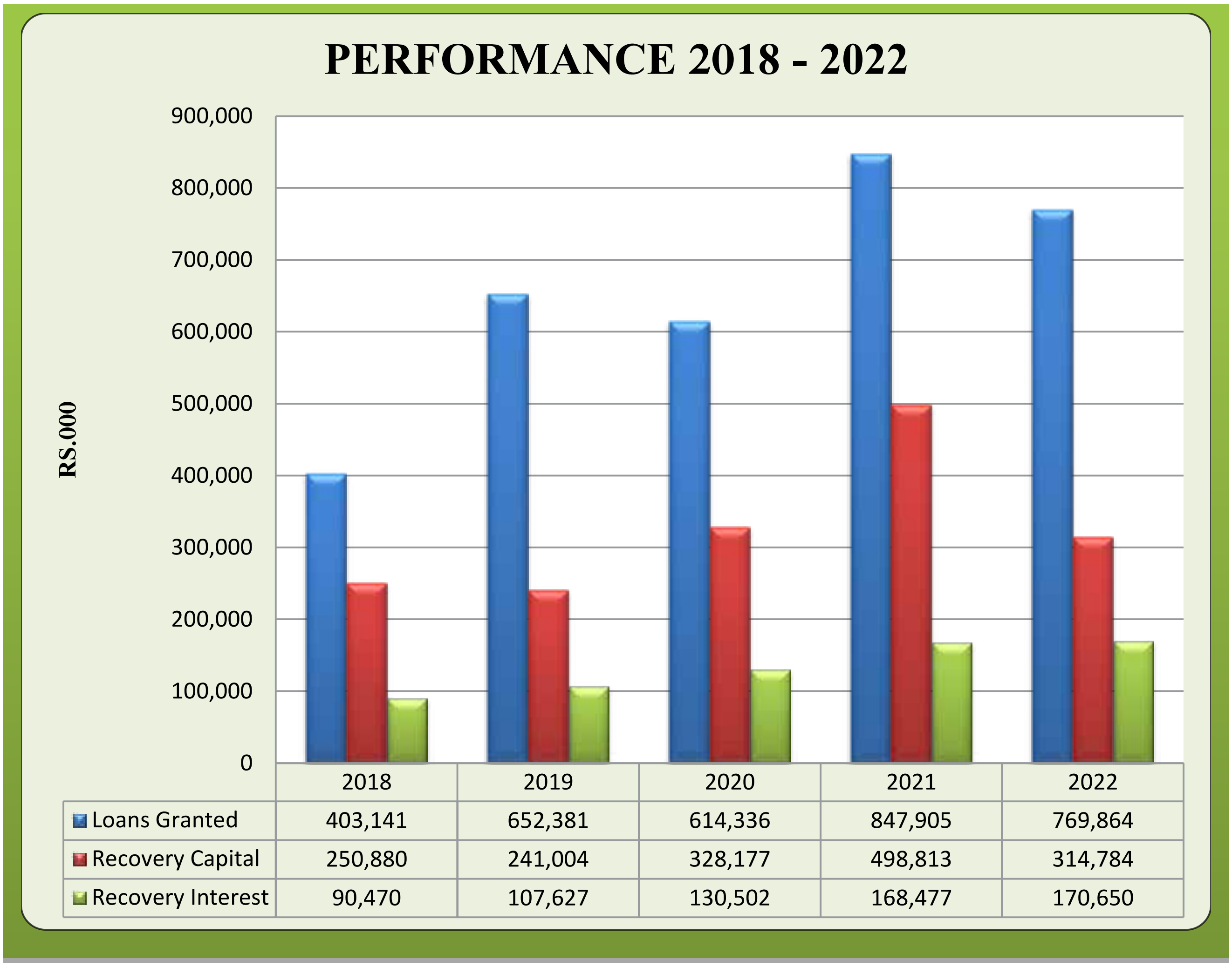
Local Loans and Development Fund

Table 6.1.6 : Performance 2018 – 2022

(Except ADB Funded Projects)

Year	Loans Granted	Recovery capital	Recovery Interest
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
2022	769,864	314,784	170,650

Chart 6.1.6 : Performance 2018 - 2022



6:2 FINANCIAL REVIEW

INCOME – YEAR 2022

The fund has earned a Gross Income of Rs.175 million on operations (Including ADB funded projects). Net surplus before tax of Rs.607.3 million has been earned after making operational expenses and amortization of Rs.29.9 million to LA's under LGIIP project. Further the imparement for loans and receivales for the year 2021 is Rs.340.8 million.

Table 6.2.1 : Summary of Financial Performance for last 05 Years

					(Rs.000)
	2018	**2018**	**2020**	**2021**	**2022**
Revenue					
Interest Income	400,599	266,181	274,899	275,545	289,204
Interest Expencess	(137,858)	(134,813)	(131,744)	(126,304)	(113,769)
Net Interest Income	**262,741**	**131,367**	**143,154**	**149,240**	**175,435**
Other Income	2,221	133,929	86,101	63,434	165,600
Total Operating Income	**264,962**	**265,296**	**229,255**	**212,674**	**341,035**
Impairment Charges	4,583	4,687	7,646	9,956	(340,829)
Net Operating Income	**260,378**	**260,607**	**221,610**	**202,718**	**681,864**
Administrative Expenses	(40,393)	(41,073)	(38,151)	(40,505)	(44,506)
Net Grant amortization	(187,976)	(153,588)	(115,998)	(74,910)	(29,997)
Operating Profit Before Tax	**32,008**	**65,948**	**67,460**	**87,303**	**607,361**
Tax Expenses	(593)	(3,274)	(2,495)	(16,237)	(36,418)
Profit After Tax	**32,601**	**69,222**	**69,955**	**71,066**	**570,943**
Total Comprehensive Income	**32,803**	**69,385**	**69,122**	**67,821**	**573,679**
Retained Earnings At the End of the year	**(243,042)**	**(176,018)**	**(105,196)**	**(37,315)**	**(220,179)**

REPAYMENT TO THE TREASURY – YEAR 2022

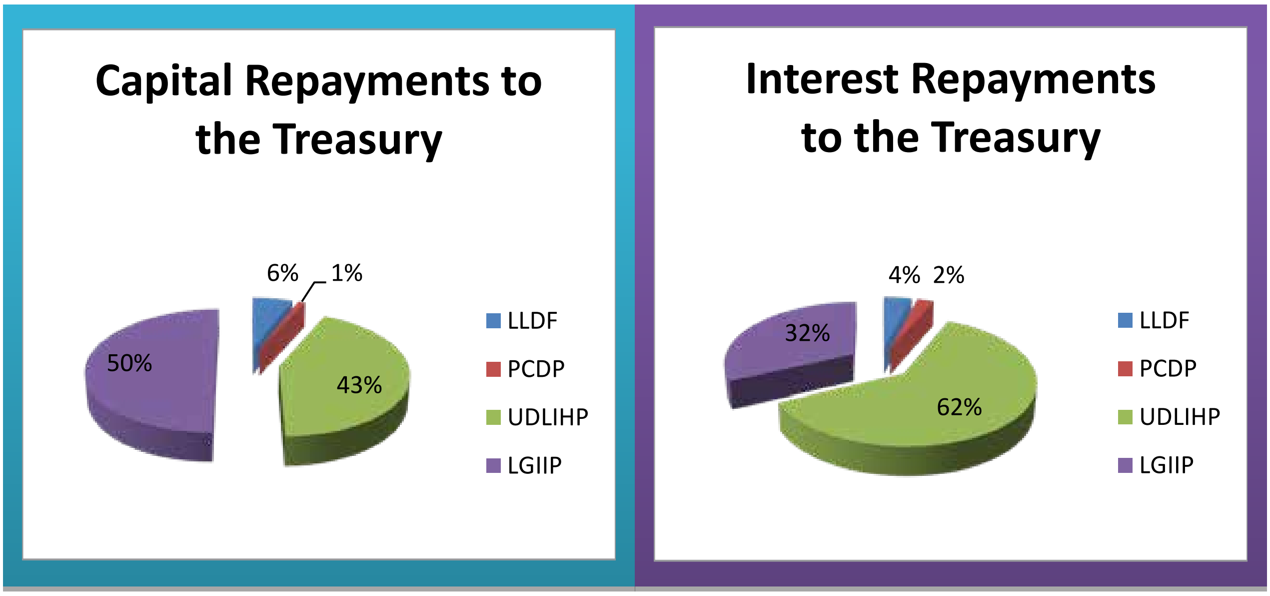
During the year Capital repayment to the Treasury was Rs.17.1 million. and the interest payment to the Treasury was Rs.5.9 million for loans obtained under LLDF and Rs.126.8 million has been paid to the Treasury as capital and Rs.89.2 million as interest under UDLIHP. The Rs.147.9 million has been paid to the Treasury as capital and Rs.46.5 has been paid to the Treasury as interest under LGIIP Loans. Further under ADB Loan No.899 SRI (SF) Rs.3.1 million has been paid to the Treasury as capital and Rs.3.5 million has been paid as interest.

Table 6.2.2 : Progress of Loan Repaymnts – year 2022

(Rs.Million)

PROJECT	CAPITAL REPAYMENT	INTEREST PAYMENTS	TOTAL
LLDF	17.1	5.9	23.0
PCDP	3.1	3.5	6.6
UDLIHP	126.8	89.3	216.1
LGIIP	147.9	46.5	194.4
Total	**294.9**	**145.2**	**440.1**

Chart 6.2.2 : Loan Recovery Progress



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

LOCAL LOAN AND DEVELOPMENT FUND

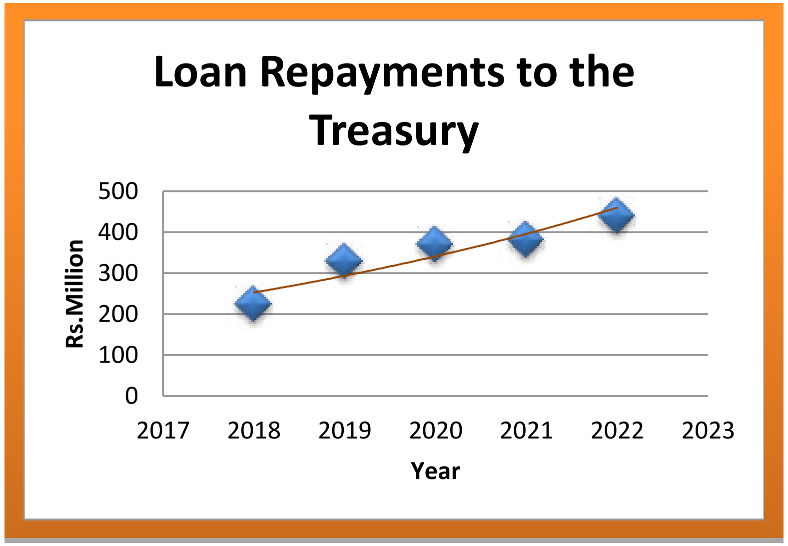
Table 6.2.3 : LOAN REPAYMENT TO THE TREASURY

2018 - 2022

Rs. Million

Year	Capital				Interest				Total
	LLDF	PCDP	UDLIHP	LGIIP	LLDF	PCDP	UDLIHP	LGIIP	
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**
2022	17.1	3.1	126.8	147.9	5.9	3.5	89.3	46.5	440.1
Total	**98.4**	**12.83**	**467.5**	**516.3**	**44.1**	**19.9**	**374.5**	**212.6**	**1746.1**

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



LOCAL LOAN & DEVELOPMENT FUND
Table 6.2.4 : LOAN REPAYMENTS TO THE TREASURY (LLDF LOANS) 2018-2022

Rs. 000

Year	Capital	Interest
2018	21.3	11.9
2019	21.1	10.3
2020	20.6	8.8
2021	18.3	7.2
2022	2022	17.1

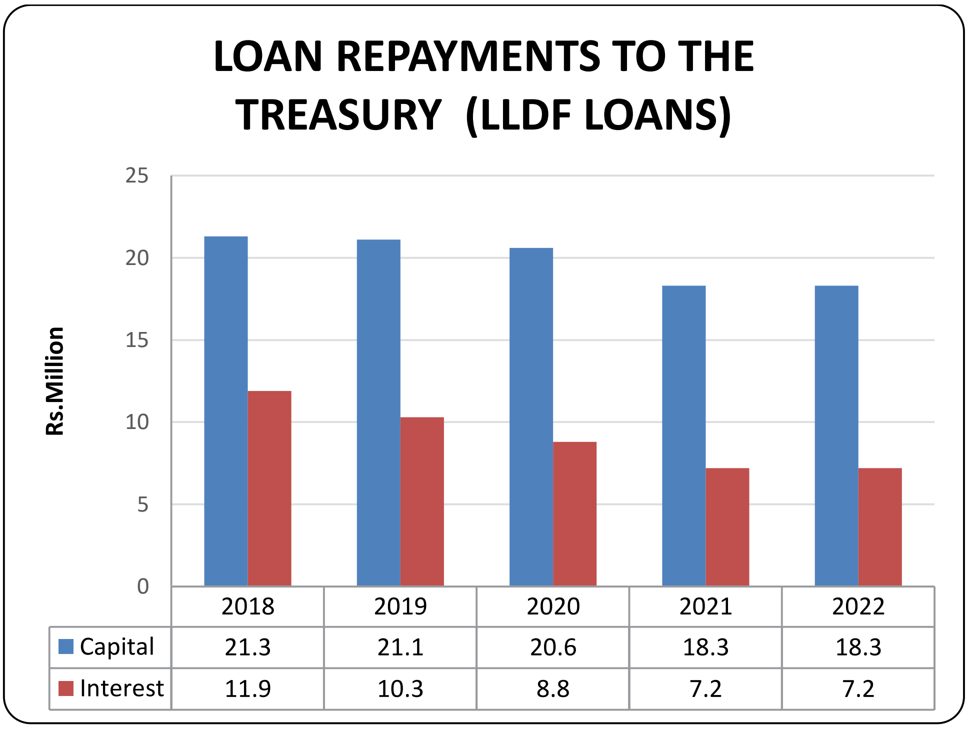


Chart 6.2.4 : Loan Repayment to the Treasury (LLDF)

Table 6.2.5 : LOAN REPAYMENTS TO THE TREASURY 2018-2022

PERENNIAL CROP DEVELOPMENT PROJECT (PCDP)

Rs. Million

Year	Capital	Interest
2018	2.13	4.4
2019	2.33	4.2
2020	2.5	4.0
2021	2.8	3.8
2022	3.1	3.5

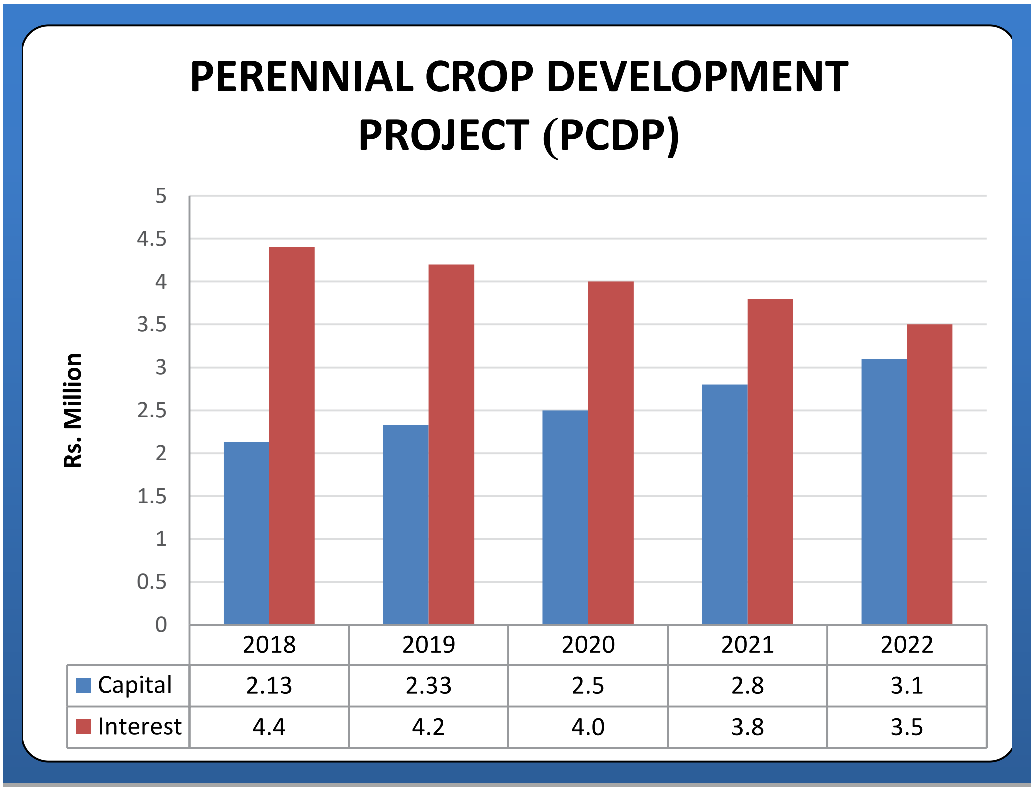


Chart 6.2.5 : Loan Repayment to the Treasury (PCDP)

Table 6.2.6 : LOAN REPAYMENTS TO THE TREASURY 2018-2022
URBAN DEVELOPMENT AND LOW INCOME HOUSING ROJECT (UDLIHP)

Rs. 000

Year	Capital	Interest
2018	73.6	64.1
2019	90.8	76.2
2020	87.7	78.3
2021	88.6	66.6
2022	126.8	89.3

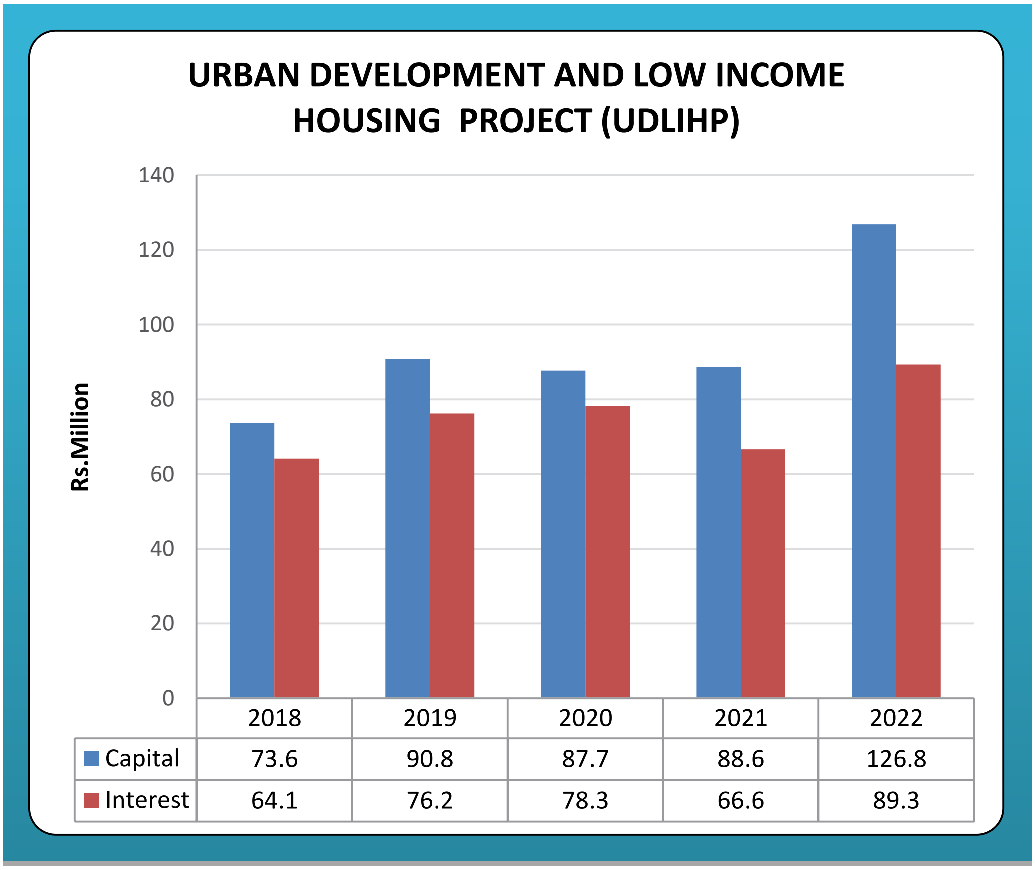


Chart 6.2.6 : Loan Repayment to the Treasury (UDLIHP)

Table 6.2.7 : LOAN REPAYMENTS TO THE TREASURY 2018-2022
LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT PROJECT (LGIIP)

Rs. Million

Year	Capital	Interest
2018	20.6	26.3
2019	80.6	43.9
2020	121.0	47.4
2021	146.2	48.5
2022	147.9	46.8

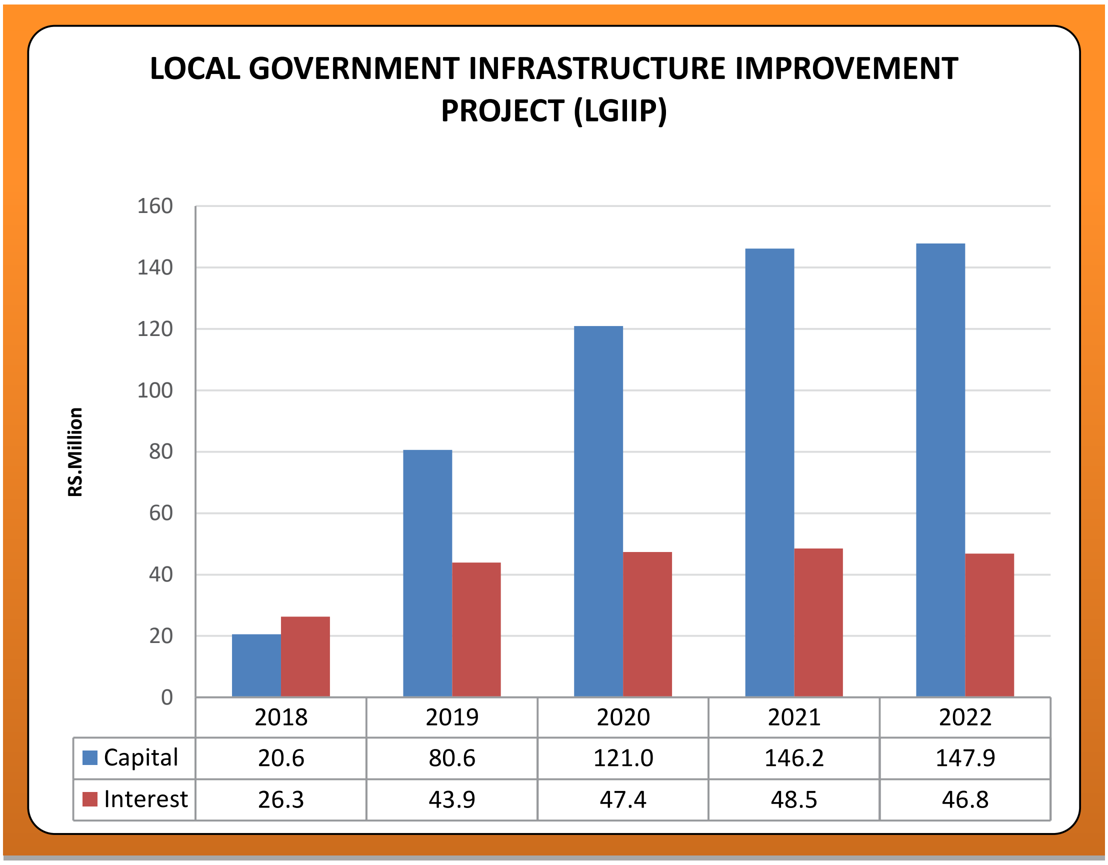


Chart 6.2.7 : Loan Repayment to the Treasury (LGIIP)

07. AUDIT AND MANAGEMENT COMMITTEE REPORT - 2022

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 2021

Financial Statements for 2021 was tabled and reviewed.

(02) Reviewed Detailed Audit Report for the year 2021

Reviewed the detailed Auditor General's Report for the year 2021 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 2021

Providing guidance and counsel to present the Annual Report 2021 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 2023 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 obtaing 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) Server Facility for LLDF IT System

Instructions has been given to obtain observations and recommendations from IT expert for server facility for LLDF IT system due to failure of existed Server.

(09) Reviewed external Audit Query – 2021/2022

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 2022

Ms.W.G.K.L.Chandrasekara	Treasury Representative	Chairman
Ms.J.M.C.Jayanthi Wijethunga	Chief Secretary (Western Province)	Member
Mr.A.B.Herath	Hon.Minister's Nominee	Member
Mr.A.Danapala	National Audit Office	Observer
Ms.P.Walli	Chief Internal Auditor, Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government (Provincial Councils and Local Government Unit)	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 Loans and Development Fund for the year ended 31 December 2022 in terms of Section 12 of the National Audit Act No. 19 of 2018.

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1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Local Loans and Development Fund for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and 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.

I do not express an opinion on the accompanying financial statements of the Local Loans and Development Fund. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimed Opinion

(a) There was a difference of Rs. 19,496,245 in the capital value and Rs. 204,527,895 in the suspense interest value included in the balances of ledger accounts and loan management software in related to loans in the statement of financial position for the year under review and receivable balances.

(b) Schedules were not submitted for the suspense interest value of Rs. 709,251,218 as per ledger accounts. As a result, the balances confirmed by the Local Authorities could not be reconciles with the balances mentioned in the ledger.

Also, due to an error in the loan management software, there was a difference of Rs. 333,519,852 between the balances mentioned in the software and the balances mentioned in the loan balance confirmation letters generated by the same software in relation to 04 Local Authorities as at 31 December 2022 and there was a difference of Rs. 22,126,145 between the loan balance confirmations sent by the Local Authorities and the balance in the software.

(c) There were differences of Rs. 320,960, Rs. 5,241,939 and Rs. 345,741 between the ledger account balances for interest income, loans and receivables and earlier loans and advances and the values mentioned in the schedules submitted in relation to that.

(d) According to Sri Lanka Accounting Standard No. 09, the institution had not developed a unique model in adjusting impairment in the financial statements of the year under review and used a model of a profit aimed financial institution. Further, when entering the data into the model used to calculate the impairment value, there was not done single debtor age analysis that should be done specifically for impairment.

(e) Although the balances of the ledger accounts were used to calculate the impairment value, the accuracy of provision for impairment amounting to Rs. 1,333,047,846 and the impairment profit amounting to rs. 340,829,524 could not ascertain due to accuracy of that balances are not confirmed according to above (a), (b) and (c).

(f) According to paragraph 22 of Sri Lanka Accounting Standard No. 08, a change in accounting policy is applied retrospectively, it should be mentioned in the financial statements of the year under review, but comparative values mentioned as corrected values as at 31 December 2021 were not submitted. Therefore, the profit before tax of Rs. 87,303,108 stated as a loss of Rs. 661,750,406 and the balance of loans and receivables of Rs. 2,731,739,987 mentioned in according to the financial statements of the previous year were not disclosed as the comparative information in the financial statements.

(g) Although deferred tax assets should be recognized for unused carried forward tax losses in accordance with paragraph 34 of Sri Lanka Accounting Standard No. 12, instead, since recognized the profit of the year and the deferred tax assets were calculated using the rate of 10 percent instead of 24 percent, deferred tax asset was understated by Rs. 13,896,406 on tax loss carried forward.

(h) Although the deferred tax asset as at 31 December 2022 was Rs. 23,124,285, due to that value is stated as Rs. 7,856,456 in the statement of financial position, the deferred tax asset is will be recognized less from Rs. 15,267,829 and the deferred tax income should be recognized as Rs. 16,980,756, but deferred tax income was understated by Rs. 15,267,828 as that income was recognized as Rs. 1,712,928 in the statement of comprehensive income.

(i) As the fixed deposit interest of Rs. 14,015,293 pertaining to the next year was included in the year under review, other operating income and receivable investment income of the year under review were overstated by that amount.

(j) An amount equal to Rs. 1,235,838 from grants received from the United Nations Development Project Fund (UNDP) in the year under review was not recognized as income and a total receiving of Rs. 12,500,000 was recognized as other income.

(k) Instead of getting a confirmation and cut off regarding the receivable income tax of Rs. 20,572,935 carried forward as at 01 January of the year under review, that had been transferred to the account of arrears of receivable interest on loans of Urban Development Low Income Housing Project (UDLIHP).

(l) Although the receivable interest of Rs. 53,142,999 for the year under review should be stated under loans and receivables, it was stated under the other assets.

(m) Due to income tax over provision of Rs. 2,319,635 was adjusted to the accumulated fund without adjusting against to the income tax expenditure of the year under review, the profit after tax in the year under review was understated by that amount.

(n) Although the opening cash and cash equivalents balance in the cash flow statements of the year under review was Rs. 86,751,731, it was overstated by Rs. 85,979,070 as it was stated as Rs. 172,730,801.

(o) It was observed differences as Rs. 69,641,957 less cash flow from operating activities, Rs. 28,571,556 less cash flow from investment activities and Rs. 113,769,524 more cash flow from financing activities in preparing the cash flow statement.

I have not been able to confirm or verify the material items included in the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement by alternative methods as described above. Due to this, I have not been able to determine whether any adjustments need to be made to the recorded or unrecorded values or transactions of the values or items that prepare the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement.

1.3 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 authority'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 intend 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 financial reporting process of the fund.

As per Sub 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 the fund.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

My responsibility is to conduct an audit of the financial statements of the fund in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements

2. Report on Other Legal and Regulatory Requirements

2.1 The specific provisions were included about the following requirements in the National Audit Act, No. 19 of 2018.

2.1.1 Except for the effects of the matters described in the basis for Qualified Opinion section of my report, 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 except the audit observations of (a), (c), (g) and (h) described in the basis for disclaimed opinion section of my report as per the requirement of section 6 (i) (d) (iv) of the National Audit Act, No. 19 of 2018.

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

2.2.1 Whether 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 2018.

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

2.2.3 That the powers, duties and functions of the fund have not been acted as per the requirement mentioned in section 12(g) of the National Audit Act No. 19 of 2018.

2.2.4 That the resources of the fund have not been procured and used in accordance with the relevant rules in a frugal, efficient and effective manner as per the requirement mentioned in section 12(h) of the National Audit Act No. 19 of 2018.

3. Other Matters

3.1 Although a bonus of Rs. 825,000 was paid based on the profit stated in the financial statements for the year 2021, it was observed that if the adjustment in the financial statements was made as per 1.2 (f) of the report, due to it would be a loss, payment of that bonus was not correct.

W.P.C.Wickramaratne
Auditor General

LOCAL LOANS AND DEVELOPMENT FUND
STATEMENTS OF COMPREHENSIVE INCOME
For The Period ended 31 December 2022

	Notes	2022 (Rs.)	2021 (Rs.)
Interest Income	4	289,204,262	275,545,152
Interest Expense	5	113,769,524	126,304,798
Net Interest Income		**175,434,738**	**149,240,354**
Other Operating Income	6	165,600,174	63,434,258
Total Operating Income		**341,034,912**	**212,674,612**
Impairment Charges	13	340,829,524	(9,956,340)
Net Operating Income		**681,864,436**	**202,718,272**
Personnel expenses	7	29,388,809	26,846,049
Depreciation PPE	14	1,120,942	1,758,084
Grant Amortization	8	29,997;185	74,910,206
Other Operating Expenses	9	13,995,967	11,900,825
Operating Profit Before Tax		**607,361,533**	**87,303,108**
Tax Expense	10	36,418,499	16,237,444
Profit For The Year		**570,943,034**	**71,065,664**
Other Comprehensive Income			
Acturial loss on Define benefit plan	18	(1,023,134)	(156,388)
Deferred Tax Expense/(Income)	10	(1,712,928)	3,400,207
Total Comprehensive Income		**573,679,095**	**67,821,845**

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 2022

	Notes	2022 (Rs.)	2021 (Rs.)
ASSETS			
Cash and Cash Equivalents	11	121,162,801	86,751,731
Balances with Banks	12	598,000,000	948,000,000
Loan and Receivables	13	3,264,343,263	3,454,569,841
Property Plant and Equipments	14	1,830,898	2,908,640
Deffered Tax Asset	17.1	7,856,456	6,143,529
Other Assets	15	99,691,917	109,801,288
TOTAL ASSETS		**4,092,885,334**	**4,608,175,029**
EQUITY AND LIABILITIES			
LIABILITIES			
Interest bearing Borrowings & Treasury Payables	16	4,263,982,469	4,590,440,319
Current Tax liability	17	36,418,499	16,237,444
Deffered Tax liability	17.1	-	-
Post employment benefit obligation	18	4,853,000	5,912,476
Other liability	19	7,811,220	32,900,492
TOTAL LIABILITIES		**4,313,065,189**	**4,645,490,731**
EQUITY			
Retain Earnings		(220,179,855)	(37,315,702)
TOTAL LIABILITIES AND EQUITY		**4,092,885,334**	**4,608,175,029**

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 2022 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 Commisioners is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board by;

....

Neel Bandara Hapuhinne
Chairman

W.G.K.L.Chandrasekara
Treasury Representative

24th February 2023
Colombo

LOCAL LOANS AND DEVELOPMENT FUND
STATEMENTS OF CASH FLOWS
Year ended 31 December 2022

	Notes	2022 (Rs.)	2021 (Rs.)
Cash flows from operating activities			
Profit Before Tax		**607,361,533**	**87,303,108**
Adjustments for;			
Depreciation & Amortization		31,118,127	76,668,290
Impairment Charges		(340,829,524)	9,956,340
Grant Amortization Income		(443,541)	(4,197,514)
Other Income		-	(4,474,276)
Gratuity & Accrued Expence		1,470,221	-
Interest Expense		113,769,524	126,304,798
Investment Income		(151,743,746)	(57,990,871)
Operating profit before working capital changes		**260,702,593**	**233,569,876**
(Increase)/Decrease other assets		9,263,274	(25,505,193)
Increase/(Decrease) other liability		(95,933)	28,263,967
Cash generated from operations		**269,869,934**	**236,328,650**
Net proceeds of loan debtors		(324,197,221)	(46,295,221)
Tax paid		(13,917,809)	-
Gratuity paid		(1,052,973)	-
Net cash generated /(used in) from operating activities		**(69,298,069)**	**190,033,429**
Cash flows from investing activities	10		
Purchase PPE		(43,199)	-
Proceeds from sale of PPE		-	-
Net purchase assets		-	(1,873,200)
Net Investments		350,000,000	50,000,000
Investment Income received		107,995,643	57,990,871
Net cash generated /(used in) from investing activities		**457,952,443**	**106,117,671**
Cash flows from financing activities			
Borrowing Capital &Interest paid		(440,222,374)	(382,130,169)
Net cash generated /(used in) from financing activities		**(440,222,374)**	**(382,130,169)**
Net increase /(Decrease) in Cash & Cash Equivalent		**(51,567,999)**	**(85,979,069)**
Cash & Cash Equivalent at the beginning of the year		172,730,801	172,730,801
Cash & Cash Equivalent at the end of the year		**121,162,800**	**86,751,731**
Cash & Cash Equivalent	11	121,162,801	86,751,731
		121,162,801	**86,751,731**

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 2022

	Retained Earnings Rs.	Total Equity Rs.
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	(37,315,702)	(37,315,702)
As at 01st January 2022	(37,315,702)	(37,315,702)
Adjustment to Retain Earnings	2,286,606	2,286,606
SLFRS 9 Provison for 2021	(758,829,854)	
Profit for the year	570,943,034	570,943,034
Other comprehensive income (net of tax)	2,736,062	2,736,062
Balance as at 31 December 2022	(220,179,855)	(220,179,855)

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 2022

4 INTEREST INCOME

	Schedule	2022 Rs.	2021 Rs.
Interest from loans and advances	5-9	289,204,262	275,545,152
		289,204,262	275,545,152

5 INTEREST EXPENSE

		2022 Rs.	2021 Rs.
Interest expense for treasury borrowings	15-18	113,769,524	126,304,798

6 OTHER OPERATING INCOME

		2022 Rs.	2021 Rs.
Interest Income from Investments	1-4	151,743,746	57,990,871
Staff loan Interest	10	912,887	969,111
Penalty Income(Liquidated damages) & Other		443,541	4,474,276
UNDP Grant		12,500,000	-
		165,600,174	63,434,258

7 PERSONNEL EXPENSES

			2022 Rs.	2021 Rs.
Salaries & Other benefits			25,339,210	23,076,061
EPF & ETF			2,831,801	2,906,597
Gratuity expense		21	1,217,798	863,391
	10		29,388,809	26,846,049

8 GRANT AMORTIZATION-LGIIP

		2022 Rs.	2021 Rs.
Debit Grant	13	41,258,082	103,031,380
Less: Credit Grant		11,260,897	28,121,174
Net Grant Amortization		29,997,185	74,910,206

9 OTHER OPERATING EXPENSES

	2022 Rs.	2021 Rs.
Office administration & establishment expenses	12,300,527	11,250,281
Professional & legal expenses	141,602	243,667
Auditor's remuneration	318,000	406,877
UNDP expenses	1,235,838	-
	13,995,967	11,900,825

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

			2022	2021
10	**TAX EXPENSES**		**Rs.**	**Rs.**
	Current tax provision	19	36,418,499	16,237,444
	Under Provision / (Over Provision) of Current Taxes		-	-
	Deferred Tax Expense/(Income)		-	3,400,207
			36,418,499	19,637,651
10.1	Accounting profit /(loss) before tax		607,361,533	87,303,108
	Aggregated disallowed items		(364,303,528)	37,315,547
	Aggregated allowable items		(1,030,779)	(1,722,039)
	Adjusted profit from Business		242,027,226	122,896,616
	Interest income		(151,743,746)	(57,990,871)
	Total statutory income		90,283,480	64,905,745
	Less -Allowable losses		(90,283,480)	-
	Taxable income		-	64,905,745
10.2	Statutory Tax Rate			
	Current income tax expenses		36,418,499	16,237,444
	(Tax Liability for the period @ rate - 24%)			

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 2022

			2022	2021
			Rs.	Rs.
11	**CASH AND CASH EQUIVALENTS**	**Schedule**		
	Savings account with banks	1	109,820,895	50,357,626
	Current account with banks	2	11,341,906	36,394,105
	Reverse Repurchase	3	-	-
			121,162,801	**86,751,731**

			2022	2021
12	**BALANCES WITH BANKS**		Rs.	Rs.
	Fixed deposits with banks	4	598,000,000	948,000,000
			598,000,000	**948,000,000**

			2022	2021
13	**LOANS AND RECEIVABLES**			
			Rs.	Rs.
	Loan receivables (Note 13.1)		4,597,391,109	4,369,617,357
	Less : Allowance for Impairment (Note 13.2)		1,333,047,846	915,047,516
			3,264,343,263	**3,454,569,841**
13.1	**Analysis - (By Projects)**			
	LLDF	5	2,728,984,447	2,272,701,992
	LGIIP	6	381,405,347	518,039,065
	PCDP	7	75,411,862	78,486,975
	UDLIHP	8	1,390,026,338	1,477,564,464
	NWSDB	9	4,790,505	5,541,380
	Staff Loans	10	16,772,609	17,283,481
			4,597,391,109	**4,369,617,357**

13.2 **Movement in impairment charge during the year**

		2022	2021 (Restated)	2021
		Rs.	Rs.	Rs.
As at 1 January		1,673,877,370	915,047,516	905,091,176
SLFRS Provision 2021-Additional			758,829,854	
Written off during the year				
Charge for the year	11	(340,829,524)		9,956,340
As at 31 December		**1,333,047,846**	**1,673,877,370**	**915,047,516**
<u>Individual Impairment</u>				
Stage 1				
Stage 2				
Stage 3		906,166,187	880,353,444	
Total Individual Impairment		906,166,187	880,353,444	880,353,444
<u>Collective Impairment</u>				
Stage 1		181,769,137	239,414,027	
Stage 2		25,925,218	133,274,878	
Stage 3		219,187,303	420,835,021	
Total Collective Impairment		426,881,658	793,523,926	34,694,072

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

14 PROPERTY PLANT AND EQUIPMENTS (Schedule 12)

Cost

Description	Cost as at 01.01.2022	Additions	Disposals/Transfer	Cost as at 31.12.2022
Office Equipment	1,725,753	-	-	1,725,753
Furniture and Fittings	1,748,813	-	-	1,748,813
Computer Hardware & Software	11,964,598	43,199	-	12,007,798
Motor Vehicle	7,995,000	-	-	7,995,000
Total	**23,434,164**	**43,199**	**-**	**23,477,364**

Accumulated Depreciation

Description	Balance as at 01.01.2022	Depreciation for the year	Disposals/Transfer	Balance as at 31.12.2022
Office Equipment	1,359,815	142,118		1,501,933
Furniture and Fittings	1,123,341	113,699	-	1,237,041
Computer Hardware & Software	10,047,368	865,124	-	10,912,493
Motor Vehicle	7,995,000	-	-	7,995,000
Total	**20,525,525**	**1,120,942**	**-**	**21,646,466**

Written Down Value	**2,908,640**	**1,830,898**

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
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		Schedule	2022 Rs.	2021 Rs.
15	**OTHER ASSETS**			
	Liqudated Damage Receivable		1,480,731	1,480,731
	LGIIP Grant to Local Authorities	13	0	41,258,082
	Inventory	14	114,083	114,082
	Interest Receivalbe on Loans		53,142,999	23,700,376
	Interest Receivable on Investment		43,748,104	12,205,808
	Tax Receivable		-	20,572,935
	Other Receivables		1,206,000	10,469,274
			99,691,917	**109,801,288**

			2022 Rs.	2021 Rs.
16	**INTEREST BEARING BORROWINGS & TREASURY PAYABLES**			
	LLDF	15	73,095,983	90,219,520
	LGIIP	16	2,991,401,014	3,139,381,466
	PCDP	17	42,791,445	45,871,377
	UDLIHP	18	1,156,694,026	1,314,967,956
			4,263,982,469	**4,590,440,319**

			2022 Rs.	2021 Rs.
17	**CURRENT TAX LIABILITY**			
	Balance as at the beginning of the Year		-	-
	Add : Provision for theCurrent Year/Adjustment under provision	19	36,418,499	16,237,444
	Less: Payment made during the Year		-	-
	Withholding Tax		-	-
			36,418,499	**16,237,444**

			2021 Rs.	2021 Rs.
17.1	**Deffered tax Assst / (Liability)**			
	Deffered Tax Assets	20	6,576,914	6,576,914
	Deffered Tax Liabilities		433,385	433,385
			6,143,529	**6,143,529**

			2022 Rs.	2021 Rs.
18	**POST EMPLOYEMENT BENEFIT OBLIGATION**			
	As at 1st January		5,912,476	5,205,473
	Amount recognize in income statement		1,217,798	863,391
		21		
	Amount recognize in other comprehensive income		(1,023,134)	(156,388)
	Payments made/payable during the year		(1,254,140)	-
	As at 31st December		**4,853,000**	**5,912,476**

LOCAL LOANS AND DEVELOPMENT FUND
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18.1 Amount recognize in income statement

	2022 Rs.	2021 Rs.
Current & Past service cost	853,554	395,616
Interest cost	364,244	467,775
	1,217,798	863,391

18.2 The principal assumptions used for compute the gratuity liability are as follows:

	2022	2021
Rate of interest	18.0%	11.0%
Salary increment rate	Fixed increment per annum	Fixed increment per annum
Staff turnover	6.0%	5.0%
Retirement age	60 years	62 years

18.3 Sensitivity of Assumptions Employed in Computation

A quantitative sensitivity analysis for significant assumption as at 31 December 2022 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

	2022 Rs.	2021 Rs.
GOSL Grant	(0)	11,260,897
LGIIP-Capital Grant	673,453	1,116,994
Deferred tax payable	-	-
Pre-paid Debtors & Advances	6,567,344	19,856,245
Other payable	570,423	666,356
	7,811,220	32,900,492

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

20.EXPENSE BREAK-UP

	2022 Rs.	2021 Rs.
PERSONNEL EXPENSES		
Staff Salaries	18,078,495	16,091,679
Adjustment Allowance	-	-
C.O.L Allowance - LLDF	2,950,870	3,385,200
Staff bonus	825,000	555,000
Allowance For Chairman	624,635	690,885
Allowance for Board of Commissioners	372,450	389,773
Overtime & Holly day Pay	148,186	127,063
Development Ass. Traveling	386,000	476,396
Allowance for DO	54,000	54,600
Travelling Expence-Office staff	169,391	94,994
E.P.F.	2,265,441	2,325,278
E.T.F.	566,360	581,319
Staff Health Insurance	1,730,183	1,210,474
Gratuity expenses	1,217,798	863,391
	29,388,809	26,846,049

OTHER OPERATING EXPENSES	2022 Rs.	2021 Rs.
Staff Welfare	456,730	383,842
Meeting Expenses	2,985	-
Audit Expenses	318,000	406,877
Postage,Telephone & Internet	477,722	464,484
Stationery / Printing	797,359	889,776
Vehicle Maintenance	260,489	570,821
Fuel	826,234	556,237
Vehicle Insurance	72,415	71,982
Electricity	736,791	438,394
Security Charges	1,092,510	1,133,485
Water Supply	28,040	13,969
Cleaning service Charges	320,886	277,200
Maintanance & Equipments	142,745	77,304
Maintanance & Building	29,000	3,825
Staff Training & Developments	-	18,000
Computer Maintance	1,151,512	663,136
Tax & Rates	-	-
Office rent	5,808,000	5,588,000
Awareness programmes	-	-
Professional charges	95,102	204,667
Press Notification	-	-
Legal Expenses	46,500	39,000
Stamp Duty	300	300
Bank Charges	810	600
Other Expenses	96,000	98,925
	12,760,129	11,900,825

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

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 Commisioners of the Fund have been classified as KMPs of the Company.

23.2 Key management personnel compensation

	2022 Rs.	2021 Rs.
Short Term Employee Benefits	997,085	1,080,658

* 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 2022

24.LLDF Segmental Comprehensive Income

	2022				
	LLDF	**LGIIP**	**PCDP**	**UDLIHP**	**Consolidation-LLDF**
Interest Income	232,616,479	150,123,894	3,524,512	55,596,010	441,860,894
Interest Expense	5,908,991	46,535,795	3,497,692	57,827,045	113,769,524
Net Interest Income	**226,707,487**	**103,588,099**	**26,819**	**2,231,035**	**328,091,371**
Other Operating Income	12,943,541	-	-	0.05	12,943,541
Total Operating Income	**239,651,028**	**103,588,099**	**26,819**	**2,231,035**	**341,034,912**
Impairment Charges	(203,055,214)	(28,735,628)	**(5,611,161)**	(103,427,521)	(340,829,524)
Net Operating Income	**442,706,242**	**132,323,727**	**5,637,981**	**101,196,486**	**681,864,436**
Personnel expenses	20,652,015.89	8,926,742.68	**2,311**	192,260	29,388,809
Depreciation PPE	787,704.64	340,482	**88**	7,333	1,120,942
Grant Amortization	-	29,997,185	-	-	29,997,185
Other Operating Expenses	9,835,203.53	4,251,223.30	**1,101**	91,560.97	13,995,967
Operating Profit Before Tax	**411,431,318**	**88,808,093**	**5,634,481**	**101,487,640**	**607,361,533**

	2021				
	LLDF	**LGIIP**	**PCDP**	**UDLIHP**	**Consolidation-LLDF**
Interest Income	174,803,990	89,343,102	3,780,866	66,577,177	334,505,135
Inteserst 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	21,716,858	5,151,847	2,628	20,027	26,846,049
Depreciation PPE	1,422,185	337,382	172	1,312	1,758,084
Grant Amortization	-	74,910,206	-	-	74,910,206
Other Operating Expenses	9,627,060	2,283,808	1,165	8,878	11,900,825
Operating Profit Before Tax	**134,076,012**	**(43,068,007)**	**(196,401)**	**(3,508,496)**	**87,303,108**

*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 2022

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 caring 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	
		2022 Rs.	2021 Rs.	2022 Rs.	2021 Rs.
Financial Assets					
Cash and Cash Equivalents		121,162,801	86,751,731	121,162,801	86,751,731
Balances with Banks		598,000,000	948,000,000	598,000,000	948,000,000
Loan and Receivables	Level 2	3,264,343,263	3,444,613,501	1,258,545,639	1,328,047,620
Other Assets		99,691,917	109,801,288	99,691,917	109,801,288
		4,083,197,980	4,589,166,520	2,077,400,357	2,472,600,639
Financial liabilities					
Interest bearing Borrowings & Treasury Payables	Level 2	4,263,982,469	4,590,440,319	1,259,165,842	1,355,569,749
Other liability		7,811,220	32,900,492	7,811,220	32,900,492
Total		4,271,793,689	4,623,340,811	1,266,977,062	1,388,470,242

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 2022

26. MATURITY OF ASSETS AND LIABILITIES

	2022			2021		
Assets	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.
Cash and Cash Equivalents	121,162,801	-	121,162,801	86,751,731	-	86,751,731
Balances with Banks	598,000,000	-	598,000,000	948,000,000	-	948,000,000
Loan and Receivables	391,721,192	2,872,622,071	3,264,343,263	413,353,620	3,031,259,881	3,444,613,501
Property Plant and Equipments	-	1,830,898	1,830,898	-	1,150,556	1,150,556
Deffered Tax Assets		7,856,456	7,856,456		6,143,529	6,143,529
Other Assets	99,691,917	0	99,691,917	68,543,206	41,258,082	109,801,288
Total assets	1,210,575,909	2,882,309,425	4,092,885,334	1,516,648,557	3,079,812,048	4,596,460,605
Liabilities						
Interest bearing Borrowings & Treasury Payables	241,981,083	4,022,001,386	4,263,982,469	241,981,083	4,348,459,236	4,590,440,318.95
Current Tax liability	-	36,418,499	36,418,499	-	16,237,444	16,237,444.00
Deffered Tax liability	-	-	-	-	-	-
Post employment benefit obligation	-	4,853,000	4,853,000	-	5,756,088	5,756,087.54
Other liability	7,137,767	673,453	7,811,220	20,522,601	12,377,891	32,900,492.26
	249,118,850	4,063,946,339	4,313,065,189	262,503,684	4,382,830,659	4,645,334,343

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

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 funfd 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.

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

As at 31 December	2022		2021	
	Maximum exposure to credit risk Rs.	Net exposure Rs.	Maximum exposure to credit risk Rs.	Net exposure Rs.
Cash and cash equivalents	121,162,801	121,162,801	86,751,731	86,751,731
Balances with banks and financial institutions	598,000,000	598,000,000	948,000,000	948,000,000
Loan and receivables	3,264,343,263	3,264,343,263	3,444,613,501	3,444,613,501
Other financial assets	99,691,917	99,691,917	109,801,288	109,801,288
	4,083,197,980	4,083,197,980	4,589,166,520	4,589,166,520

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

27. RISK MANAGEMENT (Contd...)

27.2 Credit Risk (Contd...)

27.2.2 Credit quality by class of financial assets

a) As at 31 December 2022

Assets	Neither past due nor impaired	Past due but not impaired	Individually Impaired	Total
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	121,162,801			121,162,801
Balances with banks	598,000,000			598,000,000
Loan and receivables	3,264,343,264	426,881,658	906,166,187	4,597,391,109
Other assets	99,691,917			99,691,917
Total financial assets	4,083,197,981	426,881,658	906,166,187	5,416,245,826

b) As at 31 December 2021

Assets	Neither past due nor impaired	Past due but not impaired	Individually Impaired	Total
	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

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

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 2022	Carrying amounts	Gross nominal outflow	On demand	Up to 3 months	3 to 12 months	More than 1 year
Interest bearing Borrowings & Treasury Payables	4,263,982,469	4,368,721,467	-	-	346,720,080	4,022,001,386
Other liability	7,811,220	7,811,220	-	252,423	318,000	7,240,797
	4,271,793,689	4,376,532,687	-	252,423	347,038,080	4,029,242,184

b) 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
	4,623,340,811	4,728,079,809	-	348,356	347,038,080	4,380,693,373

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LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

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	121,162,801	-	-	-	121,162,801
Balances with banks	-	498,000,000	100,000,000	-	598,000,000
Loan and receivables	-	97,930,298	293,790,894	2,872,622,071	3,264,343,263
Other assets	-	-	99,691,917	0	99,691,917
Total interest earning assets	**121,162,801**	**595,930,298**	**493,482,810**	**2,872,622,071**	**4,083,197,980**
Interest bearing liabilities					
Interest bearing borrowings & Treasury payables	-	-	241,981,083	4,022,001,386	4,263,982,469
Other liabilities	-	252,423	318,000	7,240,797	7,811,220
Total interest bearing liabilities	**-**	**252,423**	**242,299,083**	**4,029,242,184**	**4,271,793,689**
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	**121,162,801**	**595,677,875**	**251,183,727**	**(1,156,620,112)**	**(188,595,709)**

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

27. RISK MANAGEMENT (Contd...)

b) As at 31 December 2021	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	86,751,731	-	-	-	86,751,731
Balances with banks	-	848,000,000	100,000,000	-	948,000,000
Loan and receivables	-	103,338,405	310,015,215	3,031,259,881	3,444,613,501
Other assets	-	-	68,543,206	41,258,082	109,801,288
Total interest earning assets	**86,751,731**	**951,338,405**	**478,558,421**	**3,072,517,963**	**4,589,166,520**
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	**86,751,731**	**950,990,049**	**236,259,339**	**(1,308,175,410)**	**(34,174,291)**

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.

	2022		2021	
	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%	60,736,153	+ 1%	8,730,311
Interest Rate	- 1%	(60,736,153)	- 1%	(8,730,311)

LOCAL LOANS AND DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

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 2022 were authorized by the Board of Commissioners on 24th February 2023.

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.

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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. 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.

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2.7.3. 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.

2.7.4. 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.

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.

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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.

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.

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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;

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.

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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.

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.

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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

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.

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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.

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

Impairment charges as per SLFRS 9

The LLDF recognizes loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

-Cash and cash equivalents;

-Placements with banks;

-Loans and advances to other customers;

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

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Impairment charges on loans and advances to customers

For loans and advances above a predefined threshold, the LLDF individually assesses for significant increase in credit risk (SICR). If a particular loan is individually impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If the LLDF determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

The LLDF computes ECL using three main components; a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from internally developed statistical models and historical data and then adjusted to reflect forward-looking information.

-PD – The probability of default represents the likelihood of a borrower defaulting on its financial obligations either over the next 12-months (12m PD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due (DPD) is the primary input into the determination of the term structure of PD for exposures. DPD are determined by counting the number of days since the due date. The LLDF employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

-LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. The LLDF estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD.

-EAD – The exposure at default represents the expected exposure in the event of a default. The LLDF estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate EAD for a Stage 1 loan, the LLDF assesses the possible default events within 12-months. For all other loans, the EAD is considered for default events over the lifetime of the financial instrument.

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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.

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.

iv) 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.

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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
- 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.

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 rate 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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2.8.14. 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.