



LOCAL LOANS & DEVELOPMENT FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

2012

**MINISTRY OF PROVINCIAL COUNCILS AND
LOCAL GOVERNMENT**

ANNUAL REPORT - 2012

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LOCAL LOANS & DEVELOPMENT FUND
BOARD OF COMMISSIONERS

(as at 31st December 2012)

Chairman		
01.Mr.R.A.A.K.Ranawake	Secretary, Ministry of Local Government and Provincial Councils	
Treasury Representative		
02.Mr.R.D.A.Maithreerathne	Asst.Director, Dept. of National Planning	
Members		
03.Mr. W.M.M.B.Weerasekara	Commissioner of Local Government	NWP
04.Mr.W.M.Wickramarathne	Commissioner of Local Government	CP
05.Mr.Viraj Perera	Commissioner of Local Government	NCP
06.Mrs. S.J.M.H.C.Samarakoon	Commissioner of Local Government	WP
07.Mr.M.P.N.M.Wickramasinghe	Commissioner of Local Government	Uva
08.Mr. PalithaNanayakkara	Commissioner of Local Government	Sab
09.Mr.Uthaya Kumar	Commissioner of Local Government	EP
10.Mr.M.jegu	Commissioner of Local Government	NP
11.Mr.C.Muhandiramge	Commissioner of Local Government	SP
12.Mr.S.W.Gamage	Hon. Minister's Nominee	
13.Mr. VajiraSwarna Sri Bandara	Hon. Minister's Nominee	
14.Mrs.H.M.M.Dissanayake	Hon. Minister's Nominee	

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR 2012

LOCAL LOANS & DEVELOPMENT COMMISSIONER (LOCAL LOANS & DEVELOPMENT FUND)

VISION

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

MISSION

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

OBJECTIVES

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

FUNDS

Funds were provided by the Treasury in the form of a long term loan at a concessionary rate of interest. 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. A sum of Rs.25 million was allocated in the year 2009 and there were no allocations by the General Treasury during the years 2010, 2011 and 2012.

CORPORATE INFORMATION

ESTABLISHMENT

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

FUNCTIONS

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

REGISTERED OFFICE No.17 A, Barnes Place, Colombo 07

Telephone 011-2687514

Fax 011-2687513

E-mail lldf1@sltnet.lk

STRUCTURE OF THE BOARD OF COMMISSIONERS

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

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

AUDITORS

External Audit - Department of Auditor General.

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

BANKERS - Bank of Ceylon

STAFF

The following staff was employed by the Fund, as at 31st December 2012.

Designation	No of Employees
Chief Executive Officer	01
Deputy Director (Operation)	01
Deputy Director (Finance)	01
Assistant Accountant	01
Development Officer's	14
Management Assistant	05
Driver	01
Office Aide	02
Total	26

LOCAL LOANS AND DEVELOPMENT FUND CORPORATE GOVERNANCE

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

THE BOARD OF COMMISSIONERS

Composition and Balance

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

Decision Making

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

The Responsibilities

The Board of Commissioners are responsible for

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

INDEPENDENT JUDGEMENT

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

CHAIRMAN

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

CHAIRMAN'S ROLE

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

APPOINTMENT TO THE BOARD

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

ACCOUNTABILITY AND AUDIT

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

MAINTAINING A SOUND SYSTEM OF INTERNAL CONTROL & RISK MANAGEMENT

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

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 Accounting Standards. The institution has duly complied with all the reporting requirements of the relevant laws and regulatory authorities. The financial statements of the institution were audited by the Auditor Generals.

GOING CONCERN

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

STATUTORY OBLIGATIONS

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

RELATIONSHIP WITH OTHER STAKE HOLDERS

Employees

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

Regulatory Bodies

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

Environment

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

OPERATIONAL AND FINANCIAL REVIEW

PERFORMANCE IN THE YEAR 2012

Rs.181m was allocated in the institutional Budget in 2012 for the purpose of granting loans to the Local Authorities. During the year total Loans granted to 15 Local Authorities were Rs.76.2m. Performance is considered as good as its average of 60%. These Loans are repayable during a period of 05-10 years at concessionary rates of interest. Loans granted summary as follows;

YEAR - 2012

	Category	Interest Rate	Amount (Rs.)	No of Projects
1	Establishment of Road Maintenance Unit	9.0%	62,720,000.00	10
2	Construction of Crematoria	7.5%	2,200,000.00	01
3	Construction of Market Buildings	12.0%	10,529,000.00	03
4	Solid Waste Management projects	6.5%	800,000.00	01
	Total		76,249,000.00	15

INCOME

The fund has earned a Gross Income of Rs.123m on operations (Including ADB funded projects). Further Rs.24.7m has been earned by investing revolving funds, in State Banks. Net surplus of Rs.5.2m. has been earned after making operational expenses and amortization of Rs.137 m (grant component) to LAA under LGIIP project.

Interest Income, Investment Income and Interest Payment to the Treasury during the year 2012 (Project Wise)

(Rs. Million)

	LLDF	PCDP	UDLIHP	LGIIP	
Interest Income	45.7	5.3	102.0	138.0	291
Interest Payment to the Treasury	21.8	7.5	109.6	29.0	168
Investment Income	6.7	-	14.0	4.0	24.7

Net Income from last 05 years – 2008 -2012**(Rs.Million)**

Year	Net Income Before Tax (Rs.Million)
2008	36.3
2009	20.0
2010	11.0
2011	(47.0)
2012	5.2

REPAYMENT TO THE TREASURY

During the year Capital repayment to the Treasury was Rs.22.9m. and the interest payment to the Treasury was Rs.21.8m. for loans obtained under LL&DF and Rs.90.8m has been paid to the Treasury as capital and Rs.109.6 as interest under UDLIHP. The Rs.29 m has been paid to the Treasury as interest under LGIIP. Further under ADB Loan No.899 SRI (SF) Rs.1.2m has been paid to the Treasury as capital and Rs.7.6 has been paid as interest.

(Rs.Million)

PROJECT	CAPITAL REPAYMENT	INTEREST PAYMENTS	TOTAL
LLDF	22.9	21.8	44.7
PCDP	1.2	7.6	8.8
UDLIHP	90.8	109.6	200.4
LGIIP	-	29.0	29.0
Total	114.9	168	282.9

RECOVERIES

Rs.115.2m and Rs.51.2m was recovered being capital and interest due from loans granted by LL&DF own Operations. Further Rs.76.6m and Rs.93.5m recovered, being capital and interest on ADB Loan No.1632. Rs.1.2m and Rs.7.5 was recovered under PCDP as capital and interest during the year. Further Rs.44.5 m and Rs.105.7 m recovered, being capital and interest on ADB Loan No.2201 Local Government Infrastructure Improvement Project.

(Rs.Million)

PROJECT	RECOVERY - CAPITAL	RECOVERY - INTEREST	TOTAL
LLDF	115.2	51.2	166.4
PCDP	1.2	7.5	8.7
UDLIHP	76.6	93.5	170.1
LGIIP	44.5	105.7	150.2
	237.5	257.9	495.4

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. A total of Rs.2,270 m has to be recovered from 27 Local Authorities. While 70% of the loans are being recovered and the rest is in dispute. Because most of the Market Centers implemented under this project are failures and the others are in dispute.

Recovery Progress (UDLIHP) – Last 05 Years

(Rs.Million)

Year	Capital Recovery	Recovery Interest
2008	61.7	105.2
2009	51.6	94.8
2010	62.1	93.6
2011	71.7	102.4
2012	76.6	93.5

ADB LOAN No.2201 SRI (SF)

LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT PROJECT (LGIP)

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%.

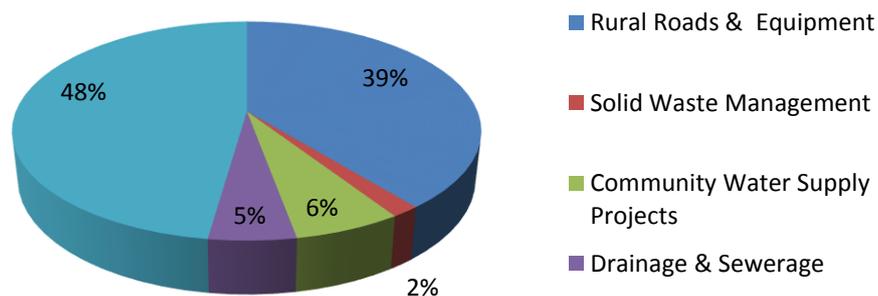
As subprojects feasibility based on future income generation of the LAs, FLIP and capacity building is an essential element to safeguard LL&DF loan recovery and to mitigate loan default risks involved. At the same time financial status of the LAs has to be improved to make them sustainable in order for 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.

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

Loan and Grant issued under LGIIP as at 31.12.2012

Project	Amount (cumulative) Rs. Million
Rural Roads & Equipment	1,734.5
Solid Waste Management	74.5
Community Water Supply Projects	279.4
Drainage & Sewerage	225.2
Other LA Facility	2,116.0
Total	4,429.6

FUND DISBURSEMENTS
(As at 31.12.2012)



**REPORT OF THE AUDIT AND MANAGEMENT COMMITTEE
FOR THE YEAR 2012**

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

01. REVIEWED EXTERNAL AUDIT REPORT

External Audit Report 2011 was tabled for observation and review. Instructions issued after discussion of the report to LLDF to take action on the following.

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

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

The Provincial Technical Committee was appointed by the Chief Secretary of the respective provinces to examine the disputed projects.

b) OVERDUE LOANS – NORTH AND EAST PROVINCES

The Loan of Rs.7,741,539.00 (as at 31.12.2012) were obtained by 22 Local Authorities for 122 projects in North & East provinces prior to year 1980. Due to the civil unrest prevailed in the past 30 years we had difficulties in recovery of these loans. It was forwarded to the General Treasury to obtain a Treasury concurrence to waiver of overdue interest.

02. AMMENDMENT OF LEGAL DOCUMENTS SIGNED WITH LOCAL AUTHORITIES

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

03. SOFTWARE FOR LOAN MANAGEMENT

The Audit and Management Committee identifying to implementing “Management Information System” which facilitate strengthen of LL&DF. The required funds supplied by LGIIP. Action has been taken to resolve the errors of the Loan Management System.

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

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

Fund disbursements as at 2012.12.31 under LGIIP – Province Wise

Province	ADB Funds (Rs.m)	Treasury Funds (Rs.m)	Total (Rs.m)
North Central	369	108	477
Central	515	168	683
North Western	635	189	824
Sabaragamuwa	350	115	465
Southern	335	97	432
Uva	245	74	319
Western	468	150	618
Eastern	137	43	180
Northern	327	103	431
Total	3,381	1,047	4,429

Fund disbursements as at 2012.12.31 under LGIIP – Local Authority Wise

Rs.Million

LA Category	Loan Amount	Percentage %	Grant	Percentage%		Percentage %
	245	53	187	40	433	93
	251	43	292	50	543	93
	1,225	33	2,228	60	3,454	93
Total	1,721		2,707		4,429	

The LL&DF was assign to recovery of loans issued under this project. The value of total disbursements are Rs.4,429Mn. The value of which can recovered as Loan is Rs.1,721Mn. balance part treated as grant.

5. SCHEME OF RECRUITMENT AND PROMOTION SCHEME

As per the recommendation of National Salaries and Cadre Commission new promotional and recruitment procedure approved by the Management Service Department on 23.02.2011. According to the approved Organization structure, the LL&DF take steps to recruit 02 new Deputy Directors in accordance with new Promotional and recruitment procedure. One Deputy Director was resign on 2013.10.31.

COMMITTEE MEMBERS - YEAR 2012

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

FINANCIAL STATEMENTS AND INFORMATION

LOCAL LOANS AND DEVELOPMENT COMMISSIONERS**(Local Loans and Development Fund)****Statement of Financial Position****As at 31st December 2012**

As at 31 st December 2012	Note	2012		2011		2010	
		Rs.	Cts.	Rs.	Cts.	Rs.	Cts.
ASSETS							
Non Current Assets							
Property, Plant & Equipment	1	4,957,731.92		5,771,395.45		4,142,493.49	
Financial assets held to maturity-investments	2	285,543,011.38		126,547,331.94		66,374,250.07	
Debtors & Receivables	3	3,826,514,644.57		3,462,131,742.44		3,440,230,793.50	
Grant given to LA -LGIP	4	2,101,054,538.17		1,728,035,928.71		1,115,536,735.03	
Interest receivable	5	189,994,439.71		187,866,693.48		361,130,599.86	
Loan Interest Receivables	6	5,479,321.68		21,305,504.08		21,469,058.51	
Staff Debtors	7	2,679,665.02		3,362,716.39		3,369,148.49	
Total Non Current Assets		6,416,223,352.45		5,535,021,312.49		5,012,253,078.95	
Current Assets							
Debtors & Receivables	8	183,781,807.00		49,203,610.77		-	
Loan Interest Receivables	9	75,973,861.99		47,681,751.68		82,351,417.48	
Refundable Deposits		40,051.61		40,051.61		40,051.61	
Suspense A/C LGIP		555,665.32		-		-	
Investment Income Receivable		-		367,314.75		-	
Cash & Cash Equivalents	10	78,524,490.10		87,677,314.10		55,796,120.15	
Total Current Assets		338,875,876.02		184,970,042.91		138,187,589.24	
Total Assets		6,755,099,228.47		5,719,991,355.40		5,150,440,668.19	
EQUITY & LIABILITIES							
Equity							
Retained Earnings	11	5,219,770.58		(218,578,541.40)		51,517,666.88	
Total Equity		5,219,770.58		(218,578,541.40)		51,517,666.88	

Liabilities**Non Current Liabilities**

Borrowings from General Treasury	12	2,237,151,970.98	2,465,952,534.06	2,546,806,750.54
Borrowing from ADB-LGIP	13	3,381,838,689.15	2,589,283,200.57	1,591,550,238.80
GOSL Grant -LGIP	14	797,623,785.35	660,395,559.53	412,257,789.31
Interest payable-PCDP		-	-	-
Provision for Gratuity	15	2,223,784.83	1,333,785.00	1,111,682.50
Interest in suspense	5	-	-	361,130,599.86
Retention Payable to LA		-	4,053,650.04	4,041,447.29
Govt.Assistance(Capital)-LGIP	16	4,649,876.53	5,274,046.06	3,627,288.25
Total Non Current Liabilities		6,423,488,106.84	5,726,292,775.26	4,920,525,796.55

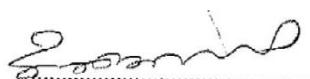
Current Liabilities

Interest payable to the General Treasury	17	181,235,817.00	181,235,817.00	151,360,772.40
Creditors	19	113,768,318.56	-	-
Suspense Received		-	1,424,064.88	2,093,511.30
Provisions & Accrued Expenses	18	8,974,817.31	8,026,046.27	10,721,138.00
Received in Advance		2,911,952.54	-	-
Current Liability to LGIP(C. A/C op.)		19,500,445.64	21,591,193.39	14,221,783.06
Total Current Liabilities		326,391,351.05	212,277,121.54	178,397,204.76

Total Liabilities		6,755,099,228.47	5,719,991,355.40	5,150,440,668.19
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Figures in brackets indicate deductions

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Local Loans and development Fund compliance with the requirements of the LLDF Ordinance and its amendments read with the Local Loans and Development Ordinance No.22 of 1916 thereto and Sri Lanka Financial Reporting Standards.



R.A.A.K. Ranawake
Chairman Local Loans & Development Fund
Secretary - Ministry of Local Government
and Provincial Councils



N. Kulasekara
Treasury. Representative
Board of Commissioners
(Chief Acc. Ministry of Finance and
Planning)



P.A.S.A. Kumara
Chief Executive Officer
Local Loans and Development Fund

LOCAL LOANS & DEVELOPMENT COMMISSIONERS
(Local Loans and Development Fund)
Statement of comprehensive Income and Retained Earnings

For the year ended 31.12.2012	Note	2012		2011	
		Rs.	Cts.	Rs.	Cts.
Revenue					
Interest Income	20	291,175,952.51		246,790,845.55	
Interest Expenses	21	(168,128,783.69)		(164,019,863.19)	
Net Interest Income		123,047,168.82		82,770,982.36	
Other Income	22	13,585,371.16		2,371,573.07	
Administrative Expenses	23	(16,407,529.31)		(15,542,869.50)	
Net Grant amortization	24	(137,820,980.35)		(121,674,545.33)	
Operating Profit		(17,595,969.68)		(52,074,859.40)	
Impairment for Loans and Other Losses		216,547,561.85		(221,023,282.01)	
Financial Expenses		-		-	
Financial Income	25	24,846,719.81		6,308,998.16	
Profit Before Tax		223,798,311.98		(266,789,143.25)	
Tax Expenses		-		(3,307,065.03)	
Profit After Tax		223,798,311.98		(270,096,208.28)	
Payment to Consolidated Fund		-		-	
Net Profit for the year		223,798,311.98		(270,096,208.28)	
Retained Earnings At the Beginning of the year		(218,578,541.40)		51,517,666.88	
Retained Earnings At the End of the year		5,219,770.58		(218,578,541.40)	

Figures in brackets indicate deductions

The significant accounting policies and the notes form an integral part of these financial statements.

LOCAL LOANS AND DEVELOPMENT COMMISSIONERS**(Local Loans and Development Fund)****Income Statement****For the year ended 31st December 2012**

	Note	2012	2011
		Rs.	Rs.
Profit/ (Loss) for the year		5,219,770.58	(218,578,541.40)
Other comprehensive income, net of tax			
Total comprehensive income for the year		5,219,770.58	(218,578,541.40)

LOCAL LOANS & DEVELOPMENT COMMISSIONERS
(Local Loans and Development Fund)
Statement of Changes in Equity
For the Year ended 31st December 2012

For the year ended 31st December 2012	Share Capital	Retained Earnings	Total
Balance as at 31.12.2010	-	51,517,666.88	51,517,666.88
Net Profit for the year	-	(270,096,208.28)	(270,096,208.28)
			-
Balance as at 31.12.2011	-	(218,578,541.40)	(218,578,541.40)
Net Profit for the year	-	223,798,311.98	223,798,311.98
			-
Balance as at 31.12.2012	-	5,219,770.58	5,219,770.58

LOCAL LOANS & DEVELOPMENT COMMISSIONERS
(Local Loans and Development Fund)
Statement of Retained Earnings Reconciliation
For the Year ended 31st December 2012

		Rs	Rs
Balance as at 01/01/2011			51,517,666.88
Fair Value Adjustments			
Capital	LLDF	(3,440,250.40)	
	UDLIHP	(341,149,513.86)	
	PCDP	(15,612,090.91)	
			(360,201,855.17)
Interest	LLDF	(8,856,567.13)	
	UDLIHP	(225,425,850.09)	
	PCDP	(17,889,505.99)	
	LGIIIP	(39,146,102.93)	
Interest in suspense		407,234,119.49	
Bad debt provision		23,262,479.82	139,178,573.17
Profit for the Year			(49,072,926.27)
Balance as at 31/12/2011			(218,578,541.40)
Fair Value Adjustments			
Capital	LLDF	(38,647,382.47)	
	UDLIHP	586,705.65	
	PCDP	5,559,314.73	
	LGIIIP	262,666,339.46	
			230,164,977.38
Interest	LLDF	(23,234,020.92)	
	UDLIHP	9,928,241.97	
	PCDP	(6,414,508.49)	
	LGIIIP	(24,737,006.05)	
Interest in suspense		30,839,877.96	(13,617,415.53)
Profit for the Year			7,250,750.13
Balance as at 31/12/2012			5,219,770.58

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

LOCAL LOANS & DEVELOPMENT COMMISSIONERS

Local Loans and Development Fund

Statement of Cash Flows

For the year ended 31st December 2012

	2012		2011	
	Rs.	Cts.	Rs.	Cts.
Cash Flows From Operating Activities				
Net profit before taxation		223,798,311.98		(270,096,208.28)
Adjustment for				
Interest Paid		-		-
Interest Received		(24,846,719.81)		(6,308,998.16)
Depreciation		1,300,910.20		1,286,720.41
Provisions		889,999.83		222,103.00
Prior years Adjustments		-		-
Operating Profit before Working Capital Changes		201,142,502.20		(274,896,383.03)
(Increase)/Decrease in Debtors & Receivables		(498,961,098.36)		(71,104,559.71)
(Increase)/Decrease in Grant given to LA LGIP		(373,018,609.46)		(612,499,193.68)
Increase/(Decrease) in Other Receivables		(14,098,973.34)		208,351,962.03
Increase/(Decrease) in Trade Creditors & Other Payables		246,664,635.76		7,724,161.27
Increase/(Decrease) in Borrowings		-		-
Cash generated from operation		(438,271,543.20)		(742,424,013.12)
Interest Paid		-		-
Interest Received		24,846,719.81		6,308,998.16
Income Tax Paid		-		(1,298,615.38)
Net cash used in operating activities		(413,424,823.39)		(737,413,630.34)
Cash flow from investing activities				
Purchase of Property, Plant & Equipment		(487,246.67)		(3,009,248.00)
Fixed Assets Disposal		-		-
Treasury Bills		(98,687,719.33)		(84,746,385.77)
Fixed Deposit		(60,307,960.11)		(79,999,999.09)
Net Cash used in investing activities		(159,482,926.11)		(167,755,632.86)
Cash flow from financing activities				
Loan Obtained		563,754,925.50		916,878,745.29
Loan Repayment		-		-
Net cash from financing activities		563,754,925.50		916,878,745.29
Net decrease in cash and cash equivalents		(9,152,823.99)		11,709,482.09
Cash and cash equivalent beginning of the year (Note A)		87,677,314.10		75,967,832.00
Cash and cash equivalent end of the year (Note A)		78,524,490.10		87,677,314.10

NOTE A

Cash & Cash Equivalents

	2012		2011	
	Rs.	Cts.	Rs.	Cts.
Savings Deposits		75,972,660.47		104,918,102.15
Cash at bank		2,551,829.63		(17,240,788.05)
Cash and cash equivalent end of the year		78,524,490.10		87,677,314.10

LOCAL LOANS & DEVELOPMENT COMMISSIONERS**(Local Loans and Development Fund)****Notes to the Financial Statements****For the year ended 31st December 2012****1 Fixed Assets**

Description	Cost as at 01.01.2012	Additions/ (Disposals)	Cost as at 31.12.2012	Depreciation			W.D.V. As at 31.12.2012
				As at 01.01.2012	For the year	As at 31.12.2012	
Office Equipment (S.08)	2,056,196.16		2,056,196.16	1,558,846.78	189,493.99	1,748,340.77	307,855.39
Assets at PMU-LGIIP (Sch. 30)	7,012,863.95	487,246.67	7,500,110.62	1,738,817.88	1,111,416.21	2,850,234.09	4,649,876.53
Total	9,069,060.11	487,246.67	9,556,306.78	3,297,664.66	1,300,910.20	4,598,574.86	4,957,731.92

Notes to the Financial Statements

For the year ended 31st December 2012

2	Financial assets held to maturity-investments	2012	2011
	Fixed Deposits	186,855,292.05	126,547,331.94
	Treasury Bill	98,687,719.33	-
		285,543,011.38	126,547,331.94
3	Debtors & Receivables - Non Current	2012	2011
	Local Loans and Development Fund (LLDF)	430,935,620.06	542,285,931.56
	Perennial Crop Development Project	61,948,797.97	56,389,483.23
	Urban Dev. Low Income Housing Proj.	1,458,184,378.64	1,519,472,940.19
	LGIP Loan to LAs	1,606,649,726.92	1,343,983,387.46
	Add. Book Value Increase	268,796,120.98	-
		3,826,514,644.57	3,462,131,742.44
4	Grant given to LA -LGIP	2012	2011
	Grant given to LA's 2012	2,707,565,852.00	2,079,781,901.60
	Less:Grant amortized 2012	(606,511,313.83)	(351,745,972.89)
		2,101,054,538.17	1,728,035,928.71
5	Interest Receivables	2012	2011
	Non Performing Loans-LLDF	2,246,917.31	17,750,729.69
	Non Performing Loans-PCDP	5,777,168.61	9,167,042.85
	Non Performing Loans-UDLIHP	181,970,353.79	160,948,920.94
		189,994,439.71	187,866,693.48
6	Interest Receivables - Non Current	2012	2011
	Loan Interest receivables - LLDF	1,348,041.43	7,008,306.23
	Interest receivables from UDLIHP	3,010,570.12	10,155,084.14
	Interest receivables from PCDP	1,120,710.13	4,142,113.71
		5,479,321.68	21,305,504.08
7	Staff Debtors	2012	2011
	Distress Loan	2,657,665.02	3,338,716.39
	Festival Advance	22,000.00	24,000.00
		2,679,665.02	3,362,716.39
8	Debtors & Receivables - Current	2012	2011
	Local Loans and Development Fund (LLDF)	78,689,542.00	32,389,335.97
	Urban Dev. Low Income Housing Proj.	105,092,265.00	16,814,274.80
		183,781,807.00	49,203,610.77

N.B - Debtors Non – Current account balance in 2010 included current debtors balance too.

In 2011 Debtors – non- current and current balances have been separated and disclosed.

Notes to the Financial Statements
For the year ended 31st December 2012

9 Interest Receivables - Current	2012	2011
Loan Interest receivables - LLDF	577,629.05	2,647,572.80
Interest receivables from UDLIHP	3,546,878.61	7,495,555.47
Interest receivables from PCDP	-	3,230.66
Interest Receivable from LAs - LGIIP	12,798,386.70	37,535,392.75
Add. Book Value Increase	59,050,967.63	-
	75,973,861.99	47,681,751.68
	2012	2011
10 Cash & Cash Equivalent		
Savings Deposits	75,972,660.47	104,918,102.15
Cash at bank	2,551,829.63	(17,240,788.05)
	78,524,490.10	87,677,314.10
	2012	2011
11 Retained Earnings		
Balance at the beginning of year	(218,578,541.40)	51,517,666.88
Profit for the year	223,798,311.98	(270,096,208.28)
	5,219,770.58	(218,578,541.40)
	2012	2011
12 Borrowings from the Treasury		
LAs loan funding	259,806,455.24	305,733,035.22
UDLIHP	1,906,599,867.56	2,088,209,924.70
PCDP	70,745,648.18	72,009,574.14
	2,237,151,970.98	2,465,952,534.06
	2012	2011
13 Borrowing from ADB-LGIIP		
2009/2011	-	2,589,283,200.57
2012	3,381,838,689.15	-
	3,381,838,689.15	2,589,283,200.57
	2012	2011
14 GOSL Grant -LGIIP		
GOSL Grant - Received	1,047,786,438.50	793,613,852.09
Less: Grant Amortized(2012)	(250,162,653.15)	(133,218,292.56)
	797,623,785.35	660,395,559.53
	2012	2011
15 Staff Gratuity		
Provision B/F	1,271,225.00	1,111,682.50
Provision for the year	952,559.83	222,102.50
	2,223,784.83	1,333,785.00
	2012	2011
16 Govt.Assistance(Capital)-LGIIP		
Assets fro LGIIP - Cost	7,500,110.62	7,012,863.95
Less: Amortization of Gov. Assistance	(2,850,234.09)	(1,738,817.89)
	4,649,876.53	5,274,046.06

Notes to the Financial Statements

For the year ended 31st December 2012

17	Interest payables to General Treasury	2012	2011
	Interest payables on UDLIHP	181,235,817.00	45,308,817.00
	Interest payables on PCDP	-	-
	Interest payables on LGIIP	-	-
		181,235,817.00	45,308,817.00
		181,235,817.00	45,308,817.00
18	Provisions & Accrued Expenses	2012	2011
	Audit Fees	925,813.00	565,813.00
	Income Tax	2,000,000.00	2,000,000.00
	Office Rent	6,000,000.00	5,400,000.00
	Accrued Expenses	49,004.31	60,233.27
		8,974,817.31	8,026,046.27
		8,974,817.31	8,026,046.27
19	Current Creditors	2012	2011
	LL&DF	22,963,289.99	-
	UDLIHP	90,805,028.57	-
		113,768,318.56	-
		113,768,318.56	-
20	Interest Income	2012	2011
	LLDF	45,729,723.53	51,136,299.33
	UDLIHP	102,070,962.39	91,458,641.56
	PCDP	5,354,898.00	7,658,660.94
	LGIIP	138,020,368.59	96,537,243.72
		291,175,952.51	246,790,845.55
		291,175,952.51	246,790,845.55
21	Interest Expenses	2012	2011
	LLDF	(21,855,613.64)	(23,584,885.88)
	UDLIHP	(109,631,021.05)	(112,585,932.15)
	PCDP	(7,597,966.15)	(8,493,480.79)
	LGIIP	(29,044,182.85)	(19,355,564.37)
		(168,128,783.69)	(164,019,863.19)
		(168,128,783.69)	(164,019,863.19)
22	Other Income	2012	2011
	Received in Suspense		
	LLDF	333,748.54	-
	UDLIHP	4,977,393.53	-
	PCDP	2,194,818.48	-
	LGIIP	-	-
	Penalty Interest		
	LLDF	-	-
	UDLIHP	-	-
	PCDP	-	-
	LGIIP	4,838,906.02	1,102,356.55
	Other Income		
	LLDF	129,088.38	169,000.30
	UDLIHP	-	-
	PCDP	-	-
	LGIIP	1,111,416.21	1,100,216.22
		13,585,371.16	2,371,573.07
		13,585,371.16	2,371,573.07

LOCAL LOANS AND DEVELOPMENT COMMISSIONERS

(Local loans & Development Fund)

SUMMARY OF CASH A/C Bank of Ceylon Bambalapitiya

FOR THE YEAR ENDED 31.12.2012

31.12.2011	RECEIPTS	Rs.	Rs. cts	31.12.2011	PAYMENTS	Rs.	Rs. cts
				40,000,000	Treasury Bills		24,999,998.83
13,223,135	Balance B/F 01.01.2012	-	9,116,247.72	10,000,000	Fixed Deposits		60,000,000.00
	Treasury Borrowings		-		LOANS		
	INTEREST			60,000,000	Municipal Councils	-	
10,116,779	Municipal Councils	8,980,002.98	-	12,500,000	Urban Councils	8,720,000.00	
8,019,504	Urban Councils	13,415,312.04	-	33,657,000	Pradeshya Sabhas	67,529,000.00	76,249,000.00
30,750,652	Pradeshya Sabhas	28,373,789.86	-		Payments To G.Treasury		
1,012,211	N.W.S. & D.B.	462,710.06	51,231,814.94	22,963,289	Loan Repayments to the Treasury	22,963,289.99	
			-	23,584,885	Interest Payments to the Treasury	21,855,631.54	44,818,921.53
	CAPITAL				Consolidated Fund		-
30,280,733	Municipal Councils	21,283,746.78	-		Special Grant for LAA	-	
18,931,527	Urban Councils	21,888,583.19	-	11,610,539	Administration Expenses		11,577,599.57
82,039,026	Pradeshya Sabhas	71,880,971.34	-	165,000	Festival Advance		157,500.00
515,296	N.W.S. & D.B.	227,796.00	115,281,097.31	6,948,615	Income tax		-
40,000,000	Treasury Bill Cancellation		-		Staff Bonus		-

618,431	Interest From T.B	12,432,861.24	1,009,782	Staff Loans	654,724.01
55,000,000	Cash Transfers(UDLIHP)	40,656,799.45	55,673,667	Cash Transfers(UDLIHP)	20,637,310.89
654,179	Cash Transfers(P.C.D.P.)		344,120	Cash Transfers(LGIIP)	1,165,056.35
219,735,319	Cash Transfers(Saving Acc.)	144,530,589.92	227,628,246	Cash Transfers(Saving Acc.)	167,028,044.00
570,743	Interest From F.M.A	1,794,547.92			
960,395	Interest From F.D	2,695,254.78		Cash Transfers	449,155.22
	Advance Payment Received for LA	147,777.38	1,063,443	Others	584,197.72
960,701	LGIIP	780,031.93		Advance Payment for LA	
2,876,203	Others	1,326,854.39	9,116,247	Balance c/d 31.12.2012	(28,327,649.14)
516,264,839	TOTAL	379,993,858.98	516,264,838.55	TOTAL	379,993,858.98

**LOCAL LOANS & DEVELOPMENT COMMISSIONERS
(LOCAL LOANS & DEVELOPMENT FUND)
SUMMARY OF CASH A/C BANK OF CEYLON BAMBALAPITIYA
URBAN DEVELOPMENT & LOW INCOME HOUSING PROJECT (UDLIHP)
FOR THE YEAR ENDED 31.12.2012**

2011	RECEIPTS	Rs. cts	2011	PAYMENT	Rs. cts
21,287,458	Balance b/f 01.01.2012	(52,191,796.89)	-		
102,448,358	Loan Interest Receipts	93,594,740.92	50,000,000	Fixed Deposits	35,000,000.00
71,789,682	Loan Capital Receipts	76,691,109.11			
	Penalty		55,000,00	Cash Transfer	1,365,374.60
2,263,970	Fixed Deposits Interest	6,494,476.69	56,284,02	Capital Payments to the Treasury	90,805,028.57
1,070,330	F.M. Deposits Interest	1,872,655.37		Treasury Bill	89,999,999.01
55,000,000	Cash Transfer LLDF	20,000,000.00	67,277,115	Interest Payments to the Treasury	109,631,051.05
	Cash Transfer LGIIP	79,000,000.00			
160,244,433	Cash Transfers (F.M.A.)	297,188,592.07	237,100,972	Cash Transfers (F.M.A..)	225,799,029.84
	Treasury Bill Interest	46,423,702.76	865,881	Expenses	964,878.60
231,962	Others	3,537,151.46	(52,191,797)	Balance c/d- 31.12.2012	19,045,269.82
414,336,197	TOTAL	572,610,631.49	414,336,197	TOTAL	572,610,631.49

LOCAL LOANS AND DEVELOPMENT COMMISSIONERS (Local loans & Development Fund) SUMMARY OF CASH A/C CENTRAL BANK OF SRI LANKA (P.C.D.P.) FOR THE YEAR ENDED 31.12.2012					
31.12.2011	RECEIPTS	Rs. cts	31.12.2011	PAYMENT	Rs. cts
2,346,517	Balance b/f 01.01.2012	1,501,097.77	1,156,901	Loan Instalment Payment to General Treasury	1,263,925.96
7,652,060	Loan Interest Receipts	7,556,316.48	8,493,480	Interest Payment to General Treasury	7,597,966.15
1,152,901	Loan Capital Receipts	1,267,925.96			
			1,501,097	Balance c/d 31.12.2012	1,463,448.10
11,151,480	TOTAL	10,325,340.21	11,151,480	TOTAL	10,325,340.21

ACCOUNTING POLICIES

REPORTING ENTITY

Local Loans and Development Fund(LL&DF) is a statutory body established as a legal entity by the Local Loans and Development Ordinance No. 22 of 1916. The consolidated financial statements for the year ended 31 December 2012 cover its sub activities for which separate segment income statements are prepared. LL&DF own operation, Urban Development and Low income Housing Project (UDLIHP), Perennial Crop Development Project (PCDP) and Local Government Infrastructure Improvement Project (LGIIP) are the segments of the consolidation.

LGIIP activities at LL&DF are being operated from year 2008. Accounts and the financial results of the years 2012 has been consolidated.

STATEMENT OF COMPLIANCE

The Statement of Financial Position, Statement of Comprehensive Income and Retained Earnings, Income Statements and Cash Flow statements have been prepared in accordance with the Sri Lanka Financial Reporting Standards (SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka.

BASIS OF PREPARATION

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

MATERIALITY AND AGGREGATION

Each material item is presented separately aggregating with amounts of similar nature or function.

BASIS OF CONSOLIDATION

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

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

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

CASH AND CASH EQUIVALENT

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

AMORTIZATION OF CREDIT AND DEBIT GRANTS

Credit grants represents the GOSL fund received from the LGIIP Project together with the ADB loan which is 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 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 profit before tax of LL&DF should not be fallen to less than 5% of the before tax and net amortization profit.

NON-PERFORMING LOAN

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

PROVISION FOR LOAN LOSSES

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

REVENUE RECOGNITION ON NON PERFORMING LOANS

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

DEPRECIATION

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

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

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

PROPERTY PLANT AND EQUIPMENT

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

CAPITALIZATION OF LOANS

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

LIABILITIES

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

GRATUITY

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

PROVIDENT FUND

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

TRUST FUND

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

INCOME STATEMENT

INTEREST INCOME

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

INTEREST AND OTHER EXPENSES

Interest payable and other expenses are recognized on accrual basis.

LOAN AND AGREEMENTS

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

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

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

Use of Significant Accounting Judgements, Estimates and Assumptions

Fair Value of Loans Granted

When the fair value of loans recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, however if such data are not available, a degree of judgement is exercised in establishing fair values.

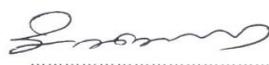
Impairment Losses on Loans and Advances

The LLDF reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made based on incurred loss events for which there is objective evidence, but the effects of which are not yet evident.

Determination of fair value

The fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, and other relevant valuation model.



R.A.A.K.Ranawake

Chairman

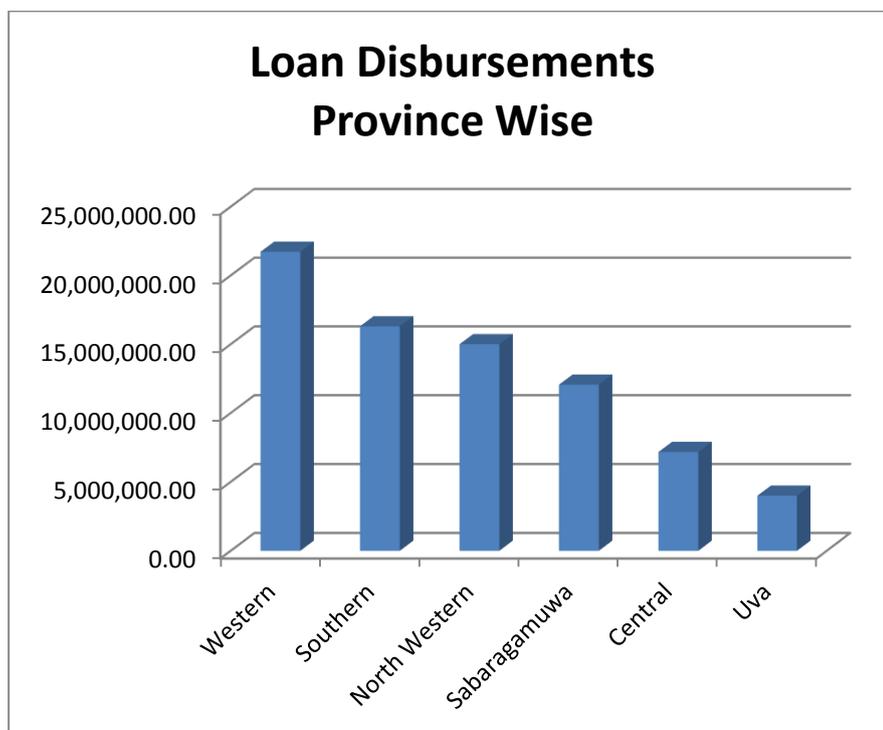
Local Loans & Development Fund

Secretary- Ministry of Local Government and Provincial Councils

LOCAL LOANS & DEVELOPMENT FUND							
LOANS RELEASED AS AT 2012.12.31							
	Councils	Province	Amount (Rs.)	Solid Waste Management Project (Rs.)	Construction of Crematorium (Rs.)	Establishment of Road Maintenance Unit (Rs.)	Construction of Market Buildings (Rs.)
1	Ayagama P.S	Sab	1,860,000				1,860,000
2	NuwaraEliya P.S	CP	2,500,000			2,500,000	
3	Matugama P.S	WP	7,000,000			7,000,000	
4	Balangoda P.S	Sab	2,200,000		2,200,000		
5	Warakapola P.S	Sab	8,000,000			8,000,000	
6	Haputale P.S	Uva	4,000,000				4,000,000
7	Panadure P.S	WP	6,000,000			6,000,000	
8	Pitabeddara P.S	SP	3,500,000			3,500,000	
9	Weligama P.S	SP	5,000,000			5,000,000	
10	Panadura U.C	WP	8,720,000			8,720,000	
11	Nattandiya P.S	NWP	5,000,000			5,000,000	
12	Hakmana P.S	SP	800,000	800,000			
13	Harispattuwa P.S	CP	4,669,000				4,669,000
14	Kamburupitiya P.S	SP	7,000,000			7,000,000	
15	Chilaw P.S	NWP	10,000,000			10,000,000	
	Total		76,249,000	800,000	2,200,000	62,720,000	10,529,000

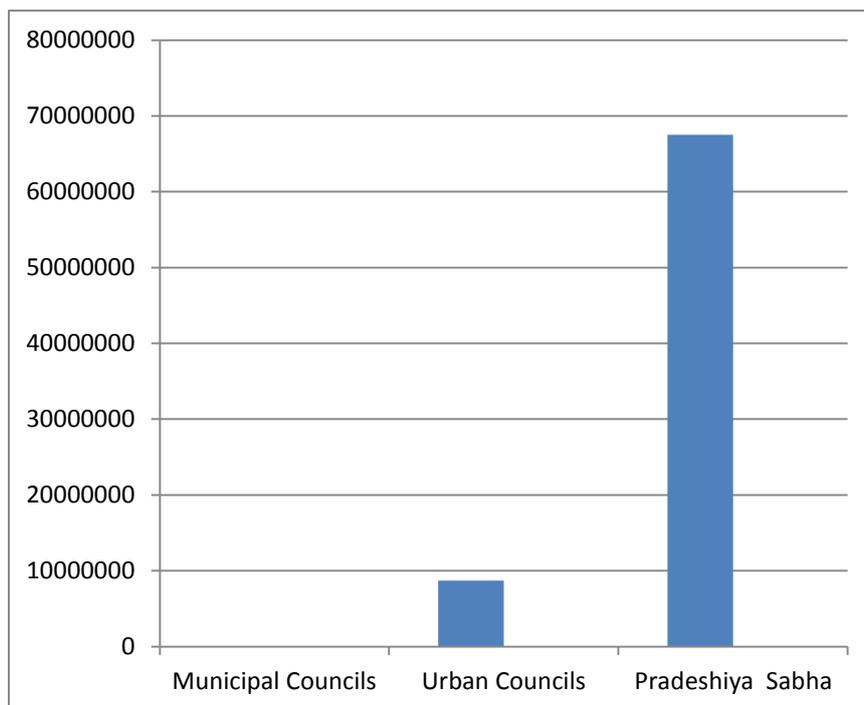
**LOAN DISBURSEMEN -LL&DF
FOR THE PERIOD - YEAR 2012
PROVINCE WISE**

Province	Amount (Rs.)	Percentage (%)
Western	21,720,000.00	29
Southern	16,300,000.00	21
North Western	15,000,000.00	20
Sabaragamuwa	12,060,000.00	16
Central	7,169,000.00	09
Uva	4,000,000.00	05
Total	76,249,000.00	100



Loan Disbursement
For the period - year 2012
COUNCIL WISE

Council	Amount (Rs.)	% of the Total
Municipal Councils	-	00
Urban Councils	8,720,000.00	11
Pradeshiya Sabha	67,529,000.00	89
Total	76,249,000.00	100



LOCAL LOANS AND DEVELOPMENT FUND
LOAN REPAYMENTS TO THE TREASURY 2008 - 2012

Rs. Million

Year	Capital				Interest				Total
	LLDF	PCDP	UDLIHP	LGIIIP	LLDF	PCDP	UDLIHP	LGIIIP	
2008	21.5	-	10.7	-	27.0	6.0	85.4	-	150.6
2009	21.5	0.34	56.2	-	25.7	7.6	73.3	-	184.6
2010	22.9	0.17	56.2	-	25.1	6.0	67.2	-	177.7
2011	22.9	1.15	56.2	-	23.5	6.0	67.2	34.7	211.6
2012	22.9	1.26	109.6	-	21.8	7.6	90.8	29.0	283.0
Total	111.7	2.92	288.9	-	123.1	33.2	383.9	63.7	1,007.5

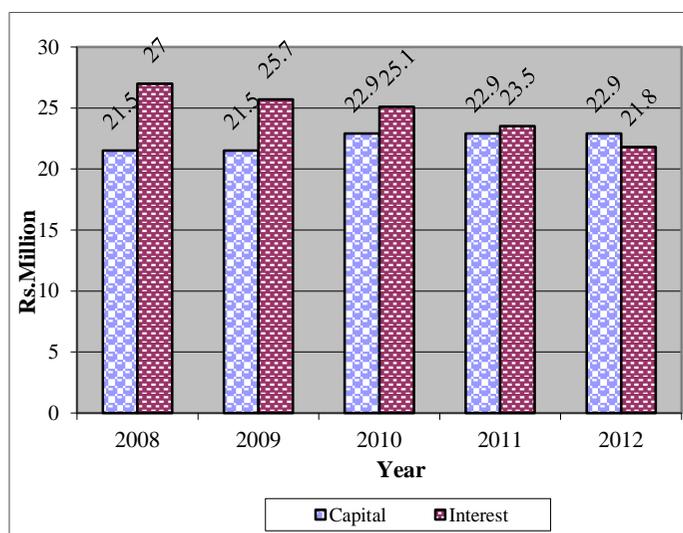
Loans issued under the Local Government Infrastructure Improvement Project (LGIIIP), The LL&DF repay to the Treasury only the interest within the grace period.

LLDF	Local Loans and Development Funds
PCDP	Perennial Crop Development Project
UDLIHP	Urban Development and Low Income Housing Project
LGIIIP	Local Government Infrastructure Improvement Project

LOAN REPAYMENTS TO THE TREASURY 2008 - 2012

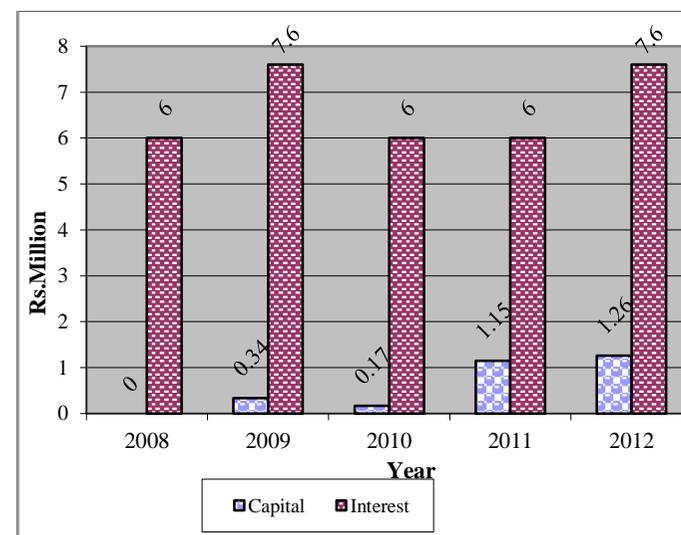
Local Loans and Development Fund (LLDF)

Year	Rs. Million	
	Capital	Interest
2008	21.5	27.0
2009	21.5	25.7
2010	22.9	25.1
2011	22.9	23.5
2012	22.9	21.8



Perennial Crop Development Project (PCDP)

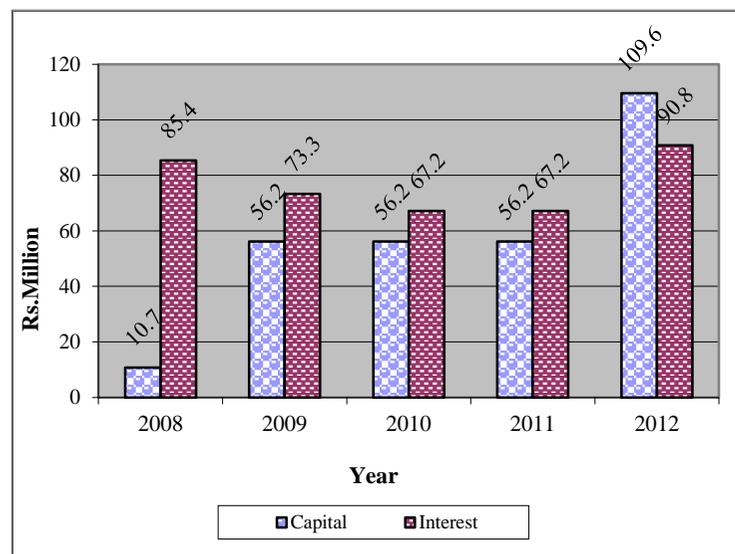
Year	Rs. Million	
	Capital	Interest
2008	-	6.0
2009	0.34	7.6
2010	0.17	6.0
2011	1.15	6.0
2012	1.26	7.6



LOAN REPAYMENTS TO THE TREASURY 2008 - 2012

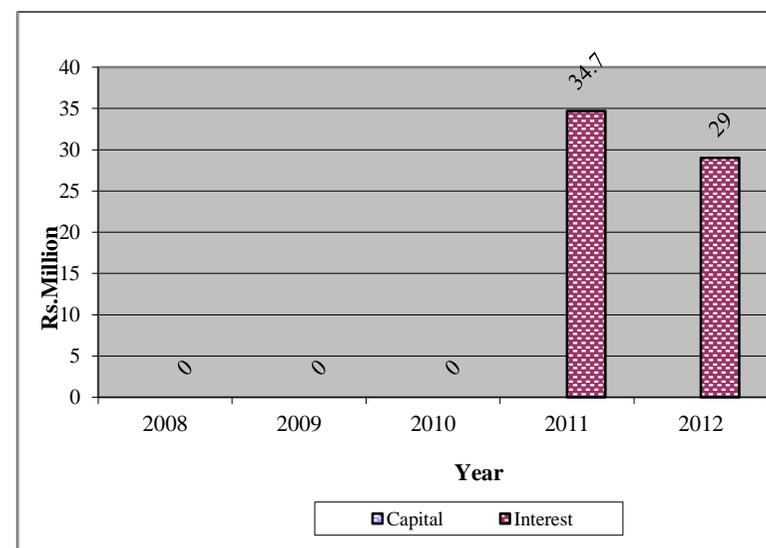
Urban Development and Low Income Housing Project (UDLIHP)

Year	Rs.Million	
	Capital	Interest
2008	10.7	85.4
2009	56.2	73.3
2010	56.2	67.2
2011	56.2	67.2
2012	109.6	90.8



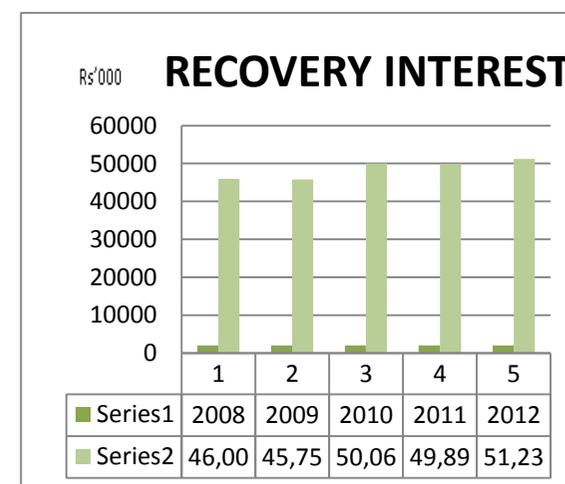
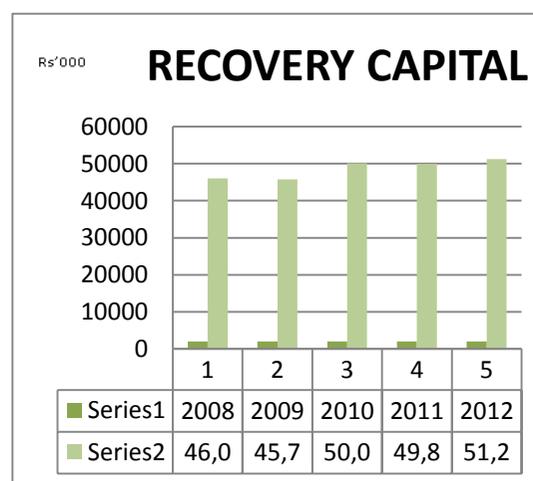
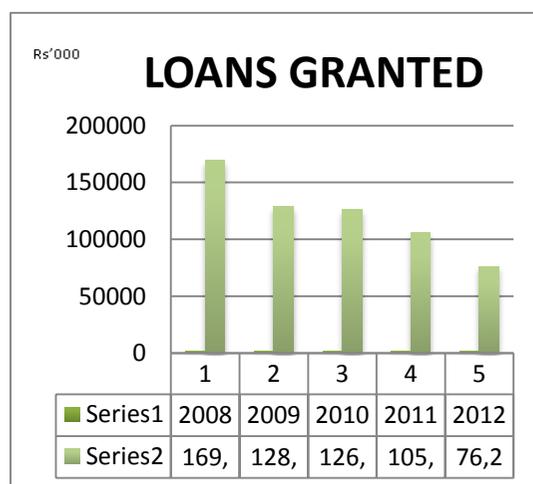
Local Government Infrastructure Improvement Project (LGIIP)

Year	Rs.Million	
	Capital	Interest
2008	-	-
2009	-	-
2010	-	-
2011	-	34.7
2012	-	29.0



LOCAL LOANS AND DEVELOPMENT FUND PERFORMANCE 2008 – 2012

			Rs.'000
Year	Loans Granted	Recovery -Capital	Recovery - Interest
2008	169,518	102,892	46,002
2009	128,570	114,609	45,753
2010	126,195	120,487	50,062
2011	105,707	131,766	49,899
2012	76,249	115,281	51,231





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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No. }

FB/E/LLDF/FA/2012

ඔබේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date }

31 March 2015

The Chairman,
Local Loans and Development Fund

Report of the Auditor General on the Financial Statements of the Local Loans and Development Fund (LLDF) for the year ended 31 December 2012 in terms of Section 14(2)(c) of the Finance Act, No.38 of 1971.

The audit of financial statements of the Local Loans and Development Fund for the year ended 31 December 2012 comprising the statement of financial position as at 31 December 2012 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971. My comments and observations which I consider should be published with the annual report of the Fund in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Chairman of the Fund on 22 September 2014.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Subsections (3) and (4) of the Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2 Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Local Loan and Development Fund as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards (LKAS)

The following observations are made.

- (a) **LKAS 01-The Presentation of Financial Statements**-A statement regarding the reclassifications of comparative information in the financial statements had not been disclosed.
- (b) **LKAS 19- Employees Benefits**-The actuarial valuation and accounting had not been done for the define employee Benefit plan in order to discharge the obligation under the defined employee benefit plan and the contribution by the employer had not been invested.
- (c) **LKAS 39- Financial Instruments (Recognition and Measurement)** - The Fund had recognized the fixed deposits as financial assets held to maturity without being recognized as loan and advances. Further, interest receivable on Treasury Bills and fixed deposits had not been capitalized by reflecting their fair value.
- (d) **SLFRS 07- Financial Instruments (Disclosure)**-Accounting policies adopted for the measurement of investment had not been disclosed in the financial statements.

2.2.2 Accounting Policies

According to the notes to the financial statements, the interest income on non-performing loans is recognizing on cash basis. However, according to the financial statements presented it was recognized on accrual basis.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The profit of the Fund had been overstated by Rs.385,991,289 due to erroneous computation of impairment on loans and receivables of the Local Government Infrastructure Improvement Project (LGIP),
- (b) Staff training expenditure amounting to Rs. 958,170 had been accounted as fixed assets considering as a modernization expense instead of being charged against the revenue for the year under review. As such the fixed assets and the profit for the year 2012 had been overstated by same amount.
- (c) Expenditure relating to purchase of 15 laptops and other computer equipment amounting to Rs.2,197,126 had been recognized as modernization expenses instead of being capitalized as computer equipment. Thus the profit for the year under review had been overstated by that amount.
- (d) According to the amortization scheduled presented with the financial statements and the previous practice of the Fund, the net amortization for the year under review should be Rs.184,290,545. However, a sum of Rs.137,820,980 had been charged against the revenue as a amortization cost. Thus the profit for the year under review had been overstated by Rs.46,469,565.
- (e) Loan balances to be recovered from Seethawakapura Urban Council and Embilipitiya Urban Council had been understated by Rs. 60,248,441 and Rs.5,147,338 respectively due to non-adjusting the interest receivable and interest in suspense as per the rescheduling programme and the Board decisions taken thereon.
- (f) Interest income and interest receivable relating to the Urban Development Low Income Housing Project of Seethawakapura Urban Council had been overstated by Rs.5,555,748 and Rs.1,756,212 respectively due to erroneous calculation.
- (g) The interest income on fixed deposits and treasury bills relating to the Urban Development Low Income Housing Project (UDLIHP) amounting to Rs.1, 216,741 and Rs.1, 306,001 respectively had been omitted in the accounts.
- (h) The interest income received from the investments made on Treasury Bills out of the funds of UDLIHP amounting to Rs.414, 883 had been accounted for as an income of the Fund. Further, the interest income of the Fund amounting to Rs.284,318 had erroneously been credited to the UDLIHP interest account.

- (i) The investment made on fixed deposit amounting to Rs.40,000,000 had been accounted as investment in Treasury bill. As a result the value of fixed deposit had been understated while the value of Treasury bill had been overstated by similar amount.
- (j) The interest income of Rs.1, 745,645 on a loan given to Hatton Dikoya Urban Council had been taken into account as receivable and out of that a sum of Rs.915,185 had been accounted for as interest in suspense for the same loan in the year 2011. Thus the interest income receivable in suspense shown in the financial statements for the year under review had been overstated by that amount.
- (k) The interest income on a loan given for Storm Water Drainage Improvement Project implemented by the Ambalangoda Urban Council had not been taken into accounts. Hence, interest income receivable had been understated by Rs. 802,810.
- (l) Interest income on the loan given for construction of a crematorium to the Ambalangoda Urban Council amounting to Rs. 162,000 had been omitted in the accounts. Thus interest income for the year under review and interest income receivable as at 31 December 2012 had been understated by similar amount.
- (m) Withholding tax on interest income amounting to Rs.2,760,746 had been omitted in the accounts. Hence, the profit and current assets for the year under review had been understated by similar amount.
- (n) Even though income tax amounting to Rs. 1,407,663 for the year 2012 had been paid in 2013, no provision had been made in the accounts during the year under review. Thus the profit for the year under review had been overstated by the similar amount.

2.2.4 Unexplained Differences

The following unexplained differences were observed in audit.

- (a) The following differences were observed between the financial statements and the corresponding records submitted for audit and the reasons for the difference were not explained to audit.



Item	Amount as per the Financial Statements	Amount as per the Corresponding Records	Difference
-----	-----	-----	-----
	Rs.	Rs.	Rs.
i. Loan Interest receivable from Urban Councils	6,158,267	6,384,577	226,310
ii. Loan Interest receivables from Pradeshiya Sabha	7,844,987	7,681,012	163,975
iii. Interest received from Municipal Councils	8,943,353	8,926,668	16,685
iv. Interest received from Urban Councils	7,346,132	7,416,570	70,438
v. Interest received from Pradeshiya Sabha	24,616,113	24,609,389	6,724
vi. Interest received from UDLIHP	75,290,095	79,291,699	4,001,604
vii Investment in Treasury bills under UDLIHP	19,277,506	39,641,959	20,364,453
viii Investment income of LGIIP	463,282	850,596	387,314
Ix Interest income of Badulla Municipal Council	2,467,972	3,362,901	894,929

2.2.5 Accounts Receivable and Payable

The following observations are made.

- (a) An amount of Rs.3,707,818 out of the total loan balance of Rs. 276,740,200 given to Pradeshiya Sabhas was due for over 30 years as at 31 December 2012.
- (b) According to the confirmation letters received relating to the loan balances outstanding as at 31 December 2012, the details of balance confirmed are as follows.

<u>Loan Category</u>	<u>Outstanding Balance as at 31 December 2012</u>	<u>Balance Confirmed</u>	<u>Percentage</u>
	Rs.	Rs.	%
LLDF	528,883,935	169,191,353	31.99
UDLIHP	1,800,745,619	294,732,784	16.36
LGIIP	1,729,974,677	192,244,154	11.11

- (c) Two unidentified amounts of Rs.268,796,121 and 59,050,967 had been shown in the financial statements under debtors and receivables, and interest receivable respectively.

3. Financial Review

3.1.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year ended 31 December 2012 had resulted a pre-tax net profit of Rs. 223,798,311 as against the pre-tax net loss of Rs. 266,789,143 for the preceding year, thus indicating an improvement of Rs. 490,587,454 in the financial result for the year under review.

The increase of interest income on loans granted, other income, net grant amortization and investment income by Rs. 44.38 million, Rs.11.21 million, Rs.16.14 million and Rs. 18.53 million respectively during the year under review as compared with corresponding figures of the preceding year and decrease of impairment for loan and other losses by Rs. 437.57 million were the main reasons attributed for this improvement.

However, if the accounting deficiencies aggregating Rs.431,648,982 (debit-net) as referred in paragraph 2.2 of this report had been adjusted, the pre-tax net profit of the Fund for the year under review amounted to Rs.223,798,311 would have been a net loss of Rs.207,850,671.

3.2 Analytical Financial Review

According to the financial statements presented the summary of the financial results for the year under review and for the preceding four years are summarized below.

	<u>2012</u> Rs.000	<u>2011</u> Rs.000	<u>2010</u> Rs.000	<u>2009</u> Rs.000	<u>2008</u> Rs.000
Total Income	329,608	255,472	233,776	191,869	164,204
Total Expenditure	(184,536)	(179,563)	(172,622)	(169,830)	(158,169)
Impairment for Loans and Other Losses	216,548	(221,023)	-	-	-
Gross Profit/(Loss)	361,619	(145,114)	61,154	22,039	6,035
Payment to Consolidated Fund	-	-	-	(5,000)	(3,000)
Provision for Bad Debts	-	-	-	-	(12,000)
Net Grant Amortization	(137,821)	(121,675)	(65,868)	(30,985)	-
Income Tax for the year	-	(3,307)	(10,274)	(17,779)	(10,127)
Net profit /(Loss) for the year	<u>223,798</u>	<u>(270,096)</u>	<u>(14,988)</u>	<u>(31,725)</u>	<u>(19,092)</u>

The following observations are made in this regards.

- (a) The total income had increased from Rs.164.2 million to Rs. 329.6million or by 100.66 per cent during the period of 2008- 2012 and total expenses had increased from Rs.158.2 million to Rs.184.5million or by16.69 per cent during the same period.

- (b) The net grant amortization of Local Government Infrastructure Improvement Project (LGIP) had increased from Rs. 30.9 million to Rs.137.8million or by 345.95 per cent during the period of 2009 to 2012.
- (c) The loss after provision for tax had been increased fromRs.19.09 million to Rs.270.09 million or by 1,314.82 per cent during the period of 2008 to 2011 and a profit of Rs.223.79 million had been earned for the year under review a compared with the loss of Rs.270.09 million for the previous year.

4. Operating Review

4.1 Performance

(a) Local Government Infrastructure Improvement Project (LGIP)

The following observations are made.

- i. Even though this Project was completed during the year under review, only a sum of Rs.4,429 million or 74.37 per cent had been disbursed up to 31 December 2012 out of approved project cost of Rs.5,955 million.
- ii. The Fund should be repaid a loan amount of Rs.3,381,838,689 to the General Treasury within 32 years with a grace period of 8 years at an interest rate of 1 per cent per annum within the grace period and 1.5 per cent per annum thereafter. Further, this loan should be repaid out of the income generated by re-lending the collection made out from the loan aggregating to Rs.1,729,974,677to the Local Authorities at an interest rate of 9 per cent. However, only a sum of Rs.156,407,153 had been received even up to 31 December 2012, out of total interest receivable amounting to Rs. 314,031,942 on the above loan. Therefore, effective fund management is very crucial for the going concern of the Fund.

(b) Urban Development And Low Income Housing Project(UDLIHP)

The Fund had undertaken the responsibility to recover the loan amounting toRs.2,270,125,714 granted by the Urban Development and Low Income Housing Project (UDLIHP). Although those loans are to be repaid to the General Treasury within 25 years in equal installments at the interest rate of 5.25 per cent per annum, the recovery is made from Local Authorities by 64 and 40 quarterly installments at 8 per cent and 10 per cent interest rate. Out of 107 loans aggregating Rs.1,800,745,619 granted as at 31 December 2012, no any single capital installment had been recovered in respect of 15 loans aggregatingRs.362,766,798.Further, interest receivable amounting to Rs.35,284,627 relating to 17 loans were categorized as interests in suspense during the year under review and the total

accumulated interest in suspense was Rs.399,130,045 as at 31December 2012. Effective action had not been taken to recover these outstanding balances and adequate provision had also not been made in the accounts.

(c) Perennial Crops Development Project (PCDP)

The following observations are made in this regard.

- (i) Sums of Rs.70,733,648and Rs.30,440,475respectively had been shown in the financial statement as capital and interest receivable on loans granted to Local Authorities by the Perennial Crops Development Project (PCDP) as at 31 December 2012.However, no any single installment had been paid by the Dambulla Pradeshiya Saba for the loan of Rs. 12,000,000 granted by this Project in 1995.
- (ii) Out of an initial loan amounting to Rs.60,922,475, released to Kandy Municipal Council during the year, a sum of Rs.58,533,648 had remained outstanding as at 31 December 2012 without being recovered.
- (iii) Even though the Fund had recovered the loan amounting to Rs. 60,922,475 granted to Kandy Municipal Council under this Project at 9 percent interest rate after rescheduling the loan, it had been repaid to Treasury at an interest rate of 10 per cent. Since the Fund had incurred a loss of 1 per cent interest per annum.

(d) Granting of Loans by the Fund

A sum of Rs.181 million had been allocated for providing loans for various Projects during the year under review and out of that a sum of Rs. 76.2 million had been given as loans during the year 2012. The progress of this loan is summarized and shown below.

Name of the Project	Amount Allocated		Amount Disbursed		Over/ Under Disbursed	
	Number of Projects	Amount Rs.Mn.	Number of Projects	Amount Rs.Mn.	Number of Projects	Amount Rs.Mn.
Purchase of Machinery and Equipment	15	50	10	62.7	5	12.7
Construction of Crematoriums	4	20	1	2.2	3	17.8
Construct Market Buildings	4	30	3	10.5	1	19.5
Solid Waste Management		5		0.8		4.2
Construction of Office Building and Libraries	3	76			3	76
Construction of Weekly Fairs and Economic Centres	6				6	
Development of Rural Roads	2		-	-	2	
Procurement Motor Cycles	20				20	
Other Revenue Earning Projects	8				8	

Loan Administration

The following observations are made.

(a) Recovery of Outstanding Loan Installments (LL&DF)

Out of loan installments due from Local Authorities as at 01 January 2012 amounting to Rs. 22.2 million, only a sum of Rs.14.1 million had been recovered during the year under review. Details are as follows.

Local Authority	Outstanding Amounts as at 01 January 2012 Rs.	Recoveries During the year 2012 Rs.	Percentage of Recoveries %
Urban Councils	12,829,179	4,930,780	38.43
Pradeshia Sabahas	9,391,809	9,249,897	98.48
Total	22,220,988	14,180,677	63.33

The following observations are made in this regards.

- i. Out of loans amounting to Rs.2,012,000 granted to the Urban Council- Velvetythurai, a sum Rs.1,888,755 had remained outstanding as at 31 December 2012.
- ii. Out of loan amounting to Rs.1, 150,000 granted to the Pradeshieya Sabha- Damana in the year 2003 for the development of Hingurana weekly fair, only an installment of Rs. 40,537 had been recovered and no installments had been recovered thereafter.
- iii. The Loan amounting to Rs.855, 000 granted to the Pradeshieya Sabha , Karachi in the year 1983, out of this an installment of Rs.11,285 and an interest thereon amounting to Rs.486,677 only had been recovered up to the end of the year 2012
- iv. Out of the loans amounting to Rs.1,791,500 granted to the Pradeshieya Sabha, Medagama in the year 1986 and 1987, only Rs. 454,761 had been recovered.
- v. No any single installment had been recovered from the Local Authorities in respect of loans amounting to Rs.362, 766,798 and Rs12,000,000 granted by the Urban Development and Low Income Housing Project and the Perennial Crops Development Project respectively.

(b) Progress of Interest Recovery

Total loan interest outstanding as at 31 December 2012 and the recoveries made during the year under review is as follows.

Loan Category	Total Interest Receivable	Interest Received in 2012	Outstanding as at 31 December 2012	Percentage
	Rs.	Rs.	Rs.	
Non-Performing Loans			-	
LLDF	17,299,200	333,753	16,965,452	1.93
UDLIHP	404,107,437	4,977,392	399,130,045	1.23
PCDP	24,173,319	2,194,818	21,978,501	9.08
Loan Interest Receivables (non-current)				
LLDF	19,661,171	9,482,722	10,178,44	48.23
UDLIHP	36,058,698	13,327,252	22,731,445	36.96
PCDP	8,461,974	-	8,461,974	-
Loan Interest Receivables (current)	45,729,723	41,368,309	4,361,414	90.46
LLDF	45,729,723	41,368,309	4,361,414	90.46
UDLIHP	102,070,962	75,290,094	26,780,86	73.76
PCDP	5,354,898	5,354,898	-	100.00
Total	708,647,105	193,697,547	477,990,245	27.33

(c) **LGIIP Loans**

At the audit test checks, it was revealed that the effective action had not been taken to recover the following outstanding loan balances during the year under review.

Name of the Project	Loan Amount	Outstanding Amount with Interest as at 31 December 2012	Grace Period Ended on
	Rs.	Rs.	
Gampaha Municipal council (a) Storm Water Project	23,683,493	6,662,605	31 October 2010
(b) Library Building Project	23,683,493	12,930,460	31 August 2010
Puttalam Pradeshiya Sabha- Road Development	24,177,030	4,172,142	31December 2011
Ukuwela Pradeshiya Sabha - Road Development	27,783,958	7,465,117	31 August 2009
Ratnapura Municipal council -Constructions of Building	37,553,723	4,142,171	15December 2012

(d) LL&DF Loans

Ambalangoda Urban Council had refused to pay the loan amounting to Rs.1,800,000 given for Construction of Crematorium due to destruction of the building by Tsunami. After rescheduling the loan, the capital and interest outstanding as at 31 December 2012 was Rs. 1,125,000 and 1, 387,125 respectively.

(e) UDLIHP Loans

i. Improvement of Storm Water Drainage Project –Embilipitiya Urban Council

(a) Even though the loan was rescheduled as per the Board decision taken on 20 December 2011, only two installments had been paid during the year under review and remaining 15 installments, aggregating to Rs.1,309,301.25 had remained unsettled even by May 2013.

(b) Further, according to the Board decision the interest receivable as at 31 December 2011 amounting to Rs. 5,147,338 had been converted to interest free loan and repayment had to commence from 01 January 2012. However, no any single installment had been recovered even by the end of December 2014.

ii According to the audit test checks, it was revealed that the under mentioned loans had remained outstanding due to various reasons. Details are shown below.

Name of the Project	Loan Amount	Outstanding Amount with Interest as at 31 December 2012	Reason for Outstanding
	Rs.	Rs.	
Projects under Badulla Municipal Council	103,059,368	173,232,879	Due to adequate action not taken
Bus Park and Market Complex- Hatton –Dikoya Urban Council	23, 457,285	13,082,298	Urban Council had stopped payment due to change the ownership of the market complex.
Storm Water Drainage in Matara Area-Matara Municipal Council	61,355,484	45,685,875	Due to adequate action not taken.
Road improvement Project- Rathnapura Municipal Council	12,656,450	9,424,113	MC rejected to pay due to damage occurred to the road

Toilet Project -Ambalangoda Urban Council	805,991	689,898	Due to adequate action not taken
Improvement of Storm Water Drainage in -Hikkaduwa Urban Council	16,540,616	7,367,468	-do-
Storm Water Drainage Improvement project - Ambalangoda Urban Council	12,142,439	9,041,374.44	-do-
Construction of "Bus Park and Town -Balangoda Urban Council	111,209,828	72,678,818	-do-

(f) Non-Performing Loans Against the Total Loans

According to the information made available, the total non-performing loans against the total loan outstanding as at 31 December 2012 and preceding two years are given below.

Loan category	2012			2011			2010		
	Total Loan Outstanding as at 31.12.2012	Non Performing Loan (NPL) Rs.mn	NPL as a Percentage of Total Outstanding	Total Loan Outstanding as at 31.12.2011	Non Performing Loan (NPL) Rs.mn	NPL as a Percentage of Total Outstanding	Total Loan Outstanding as at 31.12.2010	Non Performing Loan (NPL) Rs.mn	NPL as a Percentage of Total Outstanding
LL&DF	528.89	14.24	2.69	567.89	14.24	2.5	594.79	14.24	2.4
UDLIHP	1,800.75	929.76	51.63	1,877.44	878.06	46.7	1,950.57	882.89	45.2
PCDP	70.73	70.53	99.72	72.00	71.78	99.6	73.15	72.92	99.7
Total	2400.37	1,014.53	41.26	2,517.33	964.08	38.3	2,618.51	970.05	37.0

It was observed that the non-performing loans percentage had gradually increased during the period 2010 – 2012 with regard to all three loan schemes.

4.2 Operating Inefficiencies

(a) Revolving Fund

The operation of the Revolving Funds in the year 2012 is as follows.

	Amount Rs.
Total installment and interest recovery	512,024,223
Less: Total capital and interest paid to the Treasury	<u>(283,161,046)</u>
Balance of the Fund	228,863,177
Loan released	<u>(76,249,000)</u>
Excess Fund	152,614,177
	=====

The following observations are made in this regards.

- i. The vision of the Fund is to be the leader of financial Institution in local level infrastructure financing. Therefore the Fund has to provide long term financing to Local Authorities to build basic infrastructure facilities. The fund had earned a total capital and interest income of Rs.512.02 million during the year under review and out of that sum of Rs. 283.16 million and Rs. 76.24 million had been remitted to Treasury and lent to Local Authorities respectively.
- ii. A loan amounting to Rs. 8.72 million had been granted during the year under review to Panadura Urban Council without being considered the previous outstanding balance of Rs.12.84 million.

- (b) A sum of Rs.847,000 had been paid to a private company in order to develop a computer software for the use of the Fund. However the software had not been properly functioned even by 21 May 2013.

4.3 Transactions of Contentious Nature

The fund had been capitalized the arrears interest of Rs. 63,905,948 to the loan account without the consent of the borrowers and without entering into an agreement with the borrowers. However, the capitalized interest of Rs. 1,678,266 had been reversed due to disagreement of a borrower.

4.4 Human Resources Management

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

Category of Staff	Af. Cadre	Actual Cadre	Number of Vacancies
Executive	3	2	1
Non-Executives	35	20	15
Minor	4	2	2
Total	42	24	18

No meaningful action whatsoever had been taken to fill the 18 vacancies in order to maintain the smooth the operations of the Fund.

5. Accountability and Good Governance

5.1 Internal Audit

The Internal Auditor of the line Ministry had been appointed to cover up the internal audit activities of the Fund. However, only one audit query had been issued during the year under review which had not been covered the major risk areas of the Fund.

5.2 Budgetary Control.

Significant variances were observed between the budgeted and actual income and expenditure for the year under review. Further the budget of the PCDP and LGIIP Projects had not been prepared and presented to audit, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.3 Replies to Audit Queries

The Fund had not furnished replied to 12 audit queries issued in the year under review and 6 audit queries issued in the preceding year even by 31 December 2014.

5.4 Action Plan

Some targets set-out in the Corporate Plan for the period covered 2011-2014 and Action Plan for the year 2012 relating to human resources management had not been achieved.

6. Systems and Controls

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

- (a) Accounting
- (b) Loan Disbursements and Recovery
- (c) Human Resources Management
- (d) Information System



W.P.C. Wickramaratne
Acting Auditor General