



**LOCAL LOANS & DEVELOPMENT FUND**

**ANNUAL REPORT AND ACCOUNTS**

**2013**

**MINISTRY OF PROVINCIAL COUNCILS  
LOCAL GOVERNMENT AND SPORTS**



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## LOCAL LOANS AND DEVELOPMENT FUND

### BOARD OF COMMISSIONERS

(as at 31<sup>st</sup> December 2013)

<b>Chairman</b>		
01.Mr.R.A.A.K.Ranawake	Secretary, Ministry of Local Government and Provincial Councils	
<b>Treasury Representative</b>		
02.Mr.N.Kulasekara	Chief Accountant, Ministry of Finance & Planning	
<b>Members</b>		
03.Mr. W.M.M.B.Weerasekara	Commissioner of Local Government	NWP
04.Mr.B.H.N.Jayawickrama	Commissioner of Local Government	CP
05.Ms.W.A.T.Manel	Commissioner of Local Government	NCP
06.Mrs. S.J.M.H.C.Samarakoon	Commissioner of Local Government	WP
07.Mr.L.L.Anil Wijesiri	Commissioner of Local Government	Uva
08.Mr.P.W.D.Kolambagama	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. Vajira Swarna Sri Bandara	Hon. Minister's Nominee	
14.Mrs.H.M.M.Dissanayake	Hon. Minister's Nominee	



## **ANNUAL REPORT AND ACCOUNTS - 2013**

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

#### **VISION**

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

#### **MSSION**

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

#### **OBJECTIVES**

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

#### **FUNDS**

Funds were provided by the Treasury in the form of a long term loan at a concessionary rate of interest. With the commencement of loans recovered under ADB Loan (No.1632 SRI (SF) and ADB Loan (No.2201 SRI (SF)), revolving facilities of funds are available for the purpose of granting of loans. 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, 2012 and 2013.

### **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 and the year 2015 this institute was functioning under the 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 335 Nos. It provides Long Term loans at concessionary rates of interest.

REGISTERED OFFICE	No.24 A, Ward 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 (13) 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 31<sup>st</sup> December 2013.

<b>Designation</b>	<b>No of Employeed</b>
Chief Executive Officer	01
Deputy Director (Operation)	01
Assistant Accountant	01
Development Officer's	14
Management Assistant	05
Driver	01
Office Aide	01
<b>Total</b>	<b>24</b>



## **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**

#### **a) Composition and Balance**

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

#### **b) Decision Making**

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

### **The Responsibilities**

The Board of Commissioners are responsible for

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



## **INDEPENDENT JUDGEMENT**

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

## **CHAIRMAN**

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

## **CHAIRMAN'S ROLE**

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

## **APPOINTMENT TO THE BOARD**

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

## **ACCOUNTABILITY AND AUDIT**

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

## **MAINTAINING A SOUND SYSTEM OF INTERNAL CONTROL & RISK MANAGEMENT**

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



## **PERIODICAL REVIEW OF THE ADEQUACY AND EFFECTIVENESS OF INTERNAL CONTROL**

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

## **FINANCIAL REPORTING**

The Board of Commissioners confirm that the financial statements of the institution have been prepared in accordance with the Sri Lanka 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**

### **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.



## OPERATIONAL AND FINANCIAL REVIEW

### PERFORMANCE IN YEAR 2013

Rs.300 million was allocated in the institutional Budget in 2013 for the purpose of granting loans to the Local Authorities. During the year total Loans granted to 32 Local Authorities were Rs.225.4 million. Performance is considered as good as its average of 75%. These Loans are repayable during a period of 05-10 years at concessionary rates of interest. Loans granted summary as follows;

#### YEAR - 2013

	Category	Interest Rate	Amount (Rs.)	No of Projects
1	Establishment of Road Maintenance Unit	9.0%	186,493,000	22
2	Construction of Crematoria	7.5%	11,975,000	02
3	Construction of Market Buildings	12.0%	14,991,000	03
4	Improvement of Weekly Fairs	7.5%	10,651,000	03
5	Supply of Tractors	9.0%	1,000,000	01
6	Other Revenue Generation Projects	9.0%	369,000	01
	<b>Total</b>		<b>225,479,000</b>	<b>32</b>

### INCOME

The fund has earned a Gross Income of Rs.131 million on operations (Including ADB funded projects). Further Rs.26.8 million has been earned by investing revolving funds, in State Banks. Net loss of Rs.128 million has been earned after making operational expenses and amortization of Rs.250m (grant component) to LA under LGIIP project. Further the impairment for loans and receivables for the year 2013 is Rs.145 million. Loss before tax is Rs.246 million.



### Interest Income, Investment Income and Interest Payment to the Treasury during the year 2013 (Project Wise)

(Rs.Million)

	LLDF	PCDP	UDLIHP	LGIP	Total
Interest Income	51.1	7.4	92.9	147.4	298.8
Interest Payment to the General Treasury	20.3	5.8	99.0	35.6	167.9

### Investment Income - Year 2013

(Rs.Million)

Catogary	LLDF	PCDP	UDLIHP	LGIP	Total
Treasury Bills	1.1	-	4.7	1.2	7.0
Fixed Deposits	6.0	-	8.7	0.3	15.0
Fund Management Account	0.7	-	1.6	2.1	4.4
Total	7.8	-	15.0	3.6	26.4

### Net Income from last 05 years – 2009 -2013

(Rs.Million)

Year	Net Income Before Tax (Rs.Million)
2009	20.0
2010	11.0
2011	(47.0)
2012	(335.4)
2013	(246.4)



## REPAYMENT TO GENERAL TREASURY

During the year Capital repayment to the Treasury was Rs.22.8 million. and the interest payment to the Treasury was Rs.20.3 million for loans obtained under LL&DF and Rs.90.8 million has been paid to the Treasury as capital and Rs.99.0 million as interest under UDLIHP. The Rs.35.6 million has been paid to the Treasury as interest under LGIIP. Further under ADB Loan No.899 SRI (SF) Rs.1.0 million has been paid to the Treasury as capital and Rs.5.8 million has been paid as interest.

(Rs.Million)

PROJECT	CAPITAL REPAYMENT	INTEREST PAYMENTS	TOTAL
LLDF	22.8	20.3	43.1
PCDP	1.0	5.8	6.8
UDLIHP	90.8	99.0	189.8
LGIIP	-	35.6	35.6
Total	114.6	160.7	275.3

## RECOVERIES

Rs.124million and Rs.54.4million was recovered being capital and interest due from loans granted by LL&DF own Operations. Further Rs.82.4 million and Rs.90.3 million recovered, being capital and interest on ADB Loan No.1632.SRI (SF). Rs.1.4 million and Rs.7.4 million was recovered under PCDP as capital and interest during the year. Further Rs.86.15 million and Rs.170.48 million recovered, being capital and interest on ADB Loan No.2201 Local Government Infrastructure Improvement Project.

(Rs.Million)

PROJECT	RECOVERY CAPITAL	RECOVERY INTEREST	TOTAL
LLDF	124.00	54.4	178.4
PCDP	1.40	7.4	8.8
UDLIHP	82.40	90.3	172.7
LGIIP	86.16	170.5	256.6
TOTAL	293.96	322.6	616.56



## 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 mn 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 fail and the others are in dispute.

#### Recovery Progress (UDLIHP) – Last 06 Years

(Rs.Million)

Year	Recovery Capital	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
2013	82.4	90.3

#### 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 LA. 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.



## **REPORT OF THE AUDIT AND MANAGEMENT COMMITTEE YEAR - 2013**

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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.

### **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.

Further actions has been taken to summon the heads of Local Authorities to discuss the overdue Loans and Committee recommendation was to reschedule the loans with the necessary approval.

#### **b) OVERDUE LOANS – NORTH AND EAST PROVINCESS**

The Loan were obtained by Local Authorities 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. RECOVERY OF OVERDUE LOANS**

Action has been taken to submit comprehensive report to the Secretary to the General Treasury for dispute loans under the foreign funded projects.

## **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.

## **04. 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.

## **05. 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.

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



## **Internal Audit Report - 2011 / 2012**

The Committee reviewed internal Audit Reports for the year 2011 and 2012. Instructions were given to take action on the following. Specially,

### **Ledger Posting**

The Committee identifying Ledger posting are delayed due to lack of Staff. Therefore the Committee advised to recruit relevant staff and updated Ledger posting up o date.

### **Bard of Survey**

The Committee advised to the relevant Officers to finalize 2012 and 2013 Board of Survey and to submit to the Internal Auditor soon.

## **COMMITTEE MEMBERS - YEAR 2013**

Mr.N.Kulasekara	Treasury Representative	Chairman
Mr.Vajira Swarna Sri Bandara	Hon. Ministers Nominee	Member
Ms.R.M.Dharmalatha	Internal Auditor, MPCLG	Member
Mr.B.W.D.Lasantha	Auditor General's Dept.	Observer



# FINANCIAL STATEMENTS AND INFORMATION



**LOCAL LOANS & DEVELOPMENT COMMISSIONERS**  
**Local Loans and Development Fund**  
**Statement of Comprehensive Income and Retained Earnings**

**For the year ended 31.12.2013**

	Note	2013 Rs. Cts.	2012 Rs. Cts.
<b>Revenue</b>			
Interest Income	19	299,820,521.28	284,829,288.52
Interest Expenses	20	(168,193,753.27)	(169,713,579.93)
<b>Net Interest Income</b>		<b>131,626,768.01</b>	<b>115,115,708.59</b>
Other Income	21	7,546,955.58	11,390,552.68
Administrative Expenses	22	(17,249,939.09)	(16,501,535.49)
Net Grant amortization	23	(250,162,653.18)	(184,290,545.38)
<b>Operating Loss</b>		<b>(128,238,868.68)</b>	<b>(74,285,819.60)</b>
Imparement for Loans and receivables		(145,038,356.40)	(291,249,247.00)
Financial Expenses		-	-
Financial Income	24	26,821,303.43	30,130,207.81
<b>Loss Before Tax</b>		<b>(246,455,921.65)</b>	<b>(335,404,858.79)</b>
Tax Expencess		(1,800,000.00)	(2,100,000.00)
<b>Loss After Tax</b>		<b>(248,255,921.65)</b>	<b>(337,504,858.79)</b>
Net Profit for the year		(248,255,921.65)	(337,504,858.79)
Retained Earnings At the Beginning of the year		(556,083,399.56)	(218,578,540.77)
<b>Retained Earnings At the End of the year</b>		<b>(804,339,321.21)</b>	<b>(556,083,399.56)</b>



**Local Loans and Development Commissioners  
(Local Loans and Development Fund)  
Statement of Financial Position  
As at 31st December 2013**

As at 31st December 2013	Note	2013		2012	
		Rs.	Cts.	Rs.	Cts.
<b>ASSETS</b>					
<b>Non Current Assets</b>					
Property, Plant & Equipment	1	2,848,978.70		3,999,562.20	
Investment in Fixed Deposit and Treasury Bills	2	295,543,011.38		285,543,011.38	
Grant given to LA -LGIP	3	1,846,373,896.45		2,054,584,973.17	
Staff Debtors	4	3,255,199.51		2,679,665.02	
<b>Total Non Current Assets</b>		<b>2,148,021,086.04</b>		<b>2,346,807,211.77</b>	
<b>Current Assets</b>					
Debtors	5	3,482,315,093.62		3,604,798,320.73	
Loan Interest Receivables	6	149,934,571.46		160,606,981.72	
Refundable Deposits		40,051.61		40,051.61	
Investment Income Receivable - UDLIHP	7	2,522,742.00		2,522,742.00	
Suspense account - LGIP		-		559,414.61	
Cash Balance at PMU		19,500,745.64		19,500,745.64	
Cash & Cash Equivelent	8	177,750,550.48		59,023,744.46	
<b>Total Current Assets</b>		<b>3,832,063,754.81</b>		<b>3,847,052,000.77</b>	
<b>Total Assets</b>		<b>5,980,084,840.85</b>		<b>6,193,859,212.54</b>	
<b>EQUITY &amp; LIABILITIES</b>					
<b>Equity</b>					
Retained Earnings	9	(804,339,321.21)		(556,083,399.56)	
<b>Total Equity</b>		<b>(804,339,321.21)</b>		<b>(556,083,399.56)</b>	

**Liabilities****Non Current Liabilities**

Borrowings from General Treasury	10	2,236,290,786.87	2,532,156,106.51
Borrowing from ADB-LGIIP	11	3,551,530,832.49	3,381,838,689.14
GOSL Grant -LGIIP	12	760,524,537.95	797,623,785.35
Provision for Grativity	13	1,782,690.29	1,443,968.00
Retention Payable to LA		-	-
Govt.Assistance(Capital)-LGIIP	14	6,075,231.07	4,649,876.53
<b>Total Non Current Liabilities</b>		<b>6,556,204,078.67</b>	<b>6,717,712,425.53</b>

**Current Liabilities**

Interest payable to the General Treasury	15	187,095,177.09	-
Suspence Received		-	-
Provisions & Accrude Expenses	16	7,980,439.00	6,974,817.31
Recived in Advance	17	11,744,499.58	2,911,952.54
Current tax Liability	18	1,899,222.08	2,842,671.08
Current Liability to LGIIP (C. A/C op.)		19,500,745.64	19,500,745.64
<b>Total Current Liabilities</b>		<b>228,220,083.39</b>	<b>32,230,186.57</b>

<b>Total Liabilities</b>		<b>5,980,084,840.85</b>	<b>6,193,859,212.54</b>
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H.T.K.Pathmasiri  
Chairman  
Local Loans and Development  
Fund  
(Secretary–Ministry of Provincial  
Councils and Local Government)

W.M.M.B.H.Gunarathne  
Treasury Representative  
Board of Commissioners of Local  
Loans and Development Fund  
(Director–Dept. of State Accounts,  
Ministry of Finance & Planning)

S.A.N.R.Subasinghe  
Chief Executive Officer  
Local Loans and Development  
Fund



<b>For the year ended 31.12.2013</b>	<b>2013</b>		<b>2012</b>	
	<b>Rs.</b>	<b>Cts.</b>	<b>Rs.</b>	<b>Cts.</b>
<b>Cash Flows From Operating Activities</b>				
Net profit before taxation	(246,455,921.65)		(335,404,858.79)	
<b>Adjustment for</b>				
Interest Paid		-		-
Interest Income	(26,821,303.43)		(30,130,207.80)	
Depreciation	1,200,083.50		1,300,910.00	
Provisions		-		-
Provision for gratuity	338,722.29		172,743.00	
Adjustment to gratuity		-	(62,560.00)	
Suspense Account	559,414.61		(1,983,478.76)	
<b>Operating Profit before Working Capital Changes</b>	<b>(271,179,004.68)</b>		<b>(366,107,452.35)</b>	
(Increase)/Decrease in Debtors & Receivables	133,155,637.37		628,572.75	
(Increase)/Decrease in Grant given to LA LGIIP	208,211,076.72		(326,549,044.46)	
Increase/(Decrease) in Other Receivables		-		-
Increase/(Decrease) in Advance Received	8,832,547.04		2,911,952.54	
Increase/(Decrease) in Staff Debtors	(575,534.49)		683,051.37	
Increase/(Decrease) in Interest Payable to General treasury	187,095,177.09			-
Increase/(Decrease) in Trade Creditors & Other Payables	1,005,621.69		(3,104,879.00)	
Increase/(Decrease) in Borrowings	(126,173,176.29)		858,759,061.02	
<b>Cash generated from operation</b>	<b>140,372,344.45</b>		<b>167,221,261.87</b>	
Interest Paid to General Treasury		-	(181,235,817.00)	
Interest Received	26,821,303.43		30,130,207.80	
With Holding Tax Paid	(1,335,786.00)		(1,257,328.92)	
Income Tax Paid	(1,407,663.00)			-
<b>Net cash used in operating activities</b>				



	<b>164,450,198.88</b>	<b>14,858,323.75</b>
<b>Cash flow from investing activities</b>		
Purchase of Property, Plant & Equipment	(49,500.00)	(2,268,806.00)
Sale proceed of disposal	-	2,739,729.25
Fixed Deposit	(10,000,000.00)	(100,307,960.11)
Treasury bill	-	(58,687,719.33)
<b>Net Cash used in investing activities</b>	<b>(10,049,500.00)</b>	<b>(158,524,756.19)</b>
<b>Cash flow from financing activities</b>		
Loan Obtained	1,425,354.54	134,513,608.45
Loan Repayment	(37,099,247.40)	-
<b>Net cash from financing activities</b>	<b>(35,673,892.86)</b>	<b>134,513,608.45</b>
<b>Net decrease in cash and cash equivalents</b>	<b>118,726,806.02</b>	<b>(9,152,823.99)</b>
Cash and cash equivalent beginning of the year (Note A)	78,524,490.10	87,677,314.10
Cash and cash equivalent end of the year (Note A)	<b>197,251,296.12</b>	<b>78,524,490.12</b>

## NOTE A

Cash & Cash Equivalents	2013		2012	
	Rs.	Cts.	Rs.	Cts.
Savings Deposits	165,666,792.55		96,481,408.39	
Cash Balance at PMU	19,500,745.64		19,500,745.64	
Cash at bank	12,083,757.93		(37,457,663.93)	
Cash and Cash equivalent end of the year	<b>197,251,296.12</b>		<b>78,524,490.10</b>	



## LOCAL LOANS &amp; DEVELOPMENT COMMISSIONERS

Local Loans and Development Fund

**Notes to the Financial Statements**

For the year ended 31.12.2013

## 1 Fixed Assets

## Cost

Description	Cost as at 01.01.2013	Additions/ (Disposals)	Cost as at 31.12.2013
Office Equipment	2,056,196.16	49,500.00	2,105,696.16
Furniture and Fittings	606,563.15	-	606,563.15
Computer Hardware ,software & Office Equipment	4,546,364.00	-	4,546,364.00
LLDF Modernization - Assests	1,389,013.55	-	1,389,013.55
<b>Total</b>	<b>8,598,136.86</b>	<b>49,500.00</b>	<b>8,647,636.86</b>

## Accumulated Depreciation

Description	Balance as at 01.01.2013	Depreciation for the year	Balance as at 31.12.2013
Office Equipment	1,748,340.57	148,914.30	1,897,254.87
Furniture and Fittings	88,162.72	30,328.17	118,490.89
Computer Hardware ,software & Office Equipment	1,412,392.80	441,744.55	1,854,137.35
LLDF Modernization - Assests	1,349,678.57	579,096.48	1,928,775.05
<b>Total</b>	<b>4,598,574.66</b>	<b>1,200,083.50</b>	<b>5,798,658.16</b>

Written Down Value

3,999,562.20

2,848,978.70



<b>02 Investment in Fixed Deposit</b>	<b>2013</b>	<b>2012</b>
Fixed Deposits	236,855,292.05	226,855,292.05
Treasury Bill	58,687,719.33	58,687,719.33
	<b>295,543,011.38</b>	<b>285,543,011.38</b>
<b>03 Grant given to LA -LGIP</b>	<b>2013</b>	<b>2012</b>
Grant given to LA's 2013	2,841,795,121.45	2,707,565,852.03
Less:Grant amortized 2013	(995,421,225.00)	(652,980,878.86)
	<b>1,846,373,896.45</b>	<b>2054,584,973.17</b>
<b>04 Staff Debtors</b>	<b>2013</b>	<b>2012</b>
Distress Loan	3,232,199.51	2,657,665.02
Festival Advance	23,000.00	22,000.00
	<b>3,255,199.51</b>	<b>2,679,665.02</b>
<b>05 Debtors</b>	<b>2013</b>	<b>2012</b>
LLDF(UC,MC,PS)	619,124,948.12	517,621,456.23
UDLIHP	1,706,194,130.12	1,788,745,618.69
LGIP	1,735,734,362.20	1,729,974,677.38
PCDP	69,356,658.37	70,733,648.38
N.W.S.&D.B.	9,215,880.22	4,117,070,849.74
	<b>4,139,625,979.03</b>	<b>4,117,070,849.74</b>
Less - Provision for imparement		
Balance as at 01st Jan 2013	512,272,529.01	221,023,282.01
Add - Provision for the year	145,038,356.40	291,249,247.00
	<b>657,310,885.41</b>	<b>512,272,529.01</b>
<b>Balance as at 31st December 2013</b>	<b>3,482,315,093.62</b>	<b>3,604,798,320.73</b>
<b>6 Loan Interest Receivables</b>	<b>2013</b>	<b>2012</b>
LLDF	19,478,744.99	20,467,214.76
UDLIHP	55,524,443.20	43,003,163.15
PCDP	-	-
LGIP	74,931,383.27	93,718,840.47
Treasury Interest Receivable - LGIP	-	-
Liquidates damages Receivable - LGIP	-	1,390,142.37
Additional Interest Receivable - LGIP	-	1,525,816.59
NWS & DB	-	501,804.38
	<b>149,934,571.46</b>	<b>160,606,981.72</b>



Non Performing Loans-LLDF	-	-
Non Performing Loans-PCDP	-	-
Non Performing Loans-UDLIHP	-	-
	<u>149,934,571.46</u>	<u>160,606,981.72</u>

<b>7</b>	<b>Investment Income Receivable - UDLIHP</b>	<b>2013</b>	<b>2012</b>
	Interest Receivable Treasury Bill - UDLIHP	1,306,001.00	1,306,001.00
	Interest Receivable on FD - UDLIHP	1,216,741.00	1,216,741.00
		<u>2,522,742.00</u>	<u>2,522,742.00</u>

<b>8</b>	<b>Cash &amp; Cash Equivalent</b>	<b>2013</b>	<b>2012</b>
	Savings Deposits	165,666,792.55	96,481,408.39
	Cash at bank	12,083,757.93	(37,457,663.93)
		<u>177,750,550.48</u>	<u>59,023,744.46</u>

<b>9</b>	<b>Retained Earnings</b>	<b>2013</b>	<b>2012</b>
	Balance at the beginning of year	(556,083,399.56)	(218,578,540.77)
	Loss for the year	(248,255,921.65)	(337,504,858.79)
		<u>(804,339,321.21)</u>	<u>(556,083,399.56)</u>

<b>10</b>	<b>Borrowings from the Treasury</b>	<b>2013</b>	<b>2012</b>
	LLDF	259,968,955.24	282,769,745.23
	UDLIHP	1,906,599,867.55	2,178,640,713.10
	PCDP	69,721,964.08	70,745,648.18
		<u>2,236,290,786.87</u>	<u>2,532,156,106.51</u>

<b>11</b>	<b>Borrowing from ADB-LGIIP</b>	<b>2013</b>	<b>2012</b>
	ADB Loan payable to treasury	3,551,530,832.49	3,381,838,689.14
		<u>3,551,530,832.49</u>	<u>3,381,838,689.14</u>

<b>12</b>	<b>GOSL Grant -LGIIP</b>	<b>2013</b>	<b>2012</b>
	GOSL Grant - Received	1,102,964,884.09	1,047,786,438.50
	Less:Grant Amortized(2010)	(342,440,346.14)	(250,162,653.15)
		<u>760,524,537.95</u>	<u>797,623,785.35</u>



17	Received in Advance	<b>2013</b>	<b>2012</b>
	Advance - LLDf	1,426,709.72	582,654.25
	Advance - UDLIHP	3,015,506.00	1,839,985.62
	Advance - LGIIP	7,302,283.86	489,312.67
		<u>11,744,499.58</u>	<u>2,911,952.54</u>
13	Staff Gratuity	<b>2013</b>	<b>2012</b>
	Provision B/F	1,443,968.00	1,271,225.00
	Provision for the year	338,722.29	172,743.00
		<u>1,782,690.29</u>	<u>1,443,968.00</u>
14	Govt.Assistance(Capital)-LGIIP	<b>2013</b>	<b>2012</b>
	Assets for LGIIP - Cost	7,500,110.62	7,500,110.62
	Less: Amortization of Gov. Assistance	(1,424,879.55)	(2,850,234.09)
		<u>6,075,231.07</u>	<u>4,649,876.53</u>
	Paid during the year	-	-
		<u>1,782,690.29</u>	<u>1,443,968.00</u>
15	Interest payables to General Treasury	<b>2013</b>	<b>2012</b>
	Interest payables on UDLIHP	187,095,177.09	-
	Interest payables on PCDP	-	-
	Interest payables on LGIIP	-	-
		<u>187,095,177.09</u>	<u>-</u>
16	Provisions & Accrude Expences	<b>2013</b>	<b>2012</b>
	Audit Fees	1,285,813.00	925,813.00
	Office Rent	6,600,000.00	6,000,000.00
	Accrude Expences	94,626.00	49,004.31
		<u>7,980,439.00</u>	<u>6,974,817.31</u>
17	Received in Advance	<b>2013</b>	<b>2012</b>
	Advance - LLDf	1,426,709.72	582,654.25
	Advance - UDLIHP	3,015,506.00	1,839,985.62
	Advance - LGIIP	7,302,283.86	489,312.67
		<u>11,744,499.58</u>	<u>2,911,952.54</u>



18	<b>Current tax Liability</b>	<b>2013</b>	<b>2012</b>
	Balance as at the beginning of the Year	2,842,671.08	2,000,000.00
	Add : Provision for the Current Year	1,800,000.00	2,100,000.00
		4,642,671.08	4,100,000.00
	Less: Payment made during the Year For Year 2012/2013	(1,407,663.00)	-
	Withholding Tax deducted	(1,335,786.00)	(1,257,328.92)
	Balance as at the end the Year	1,899,222.08	2,842,671.08
19	<b>Interest Income</b>	<b>2013</b>	<b>2012</b>
	LLDF	51,154,999.68	44,927,209.09
	UDLIHP	92,909,676.74	95,561,812.39
	PCDP	7,430,732.43	5,354,898.00
	LGIIIP	147,407,845.45	138,020,854.60
	NW & DP	917,266.98	964,514.44
		299,820,521.28	284,829,288.52
20	<b>Interest Expenses</b>	<b>2013</b>	<b>2012</b>
	LLDF	20,378,514.40	21,855,631.54
	UDLIHP	106,288,717.05	111,215,799.40
	PCDP	5,874,564.82	7,597,966.15
	LGIIIP	35,651,957.00	29,044,182.84
		168,193,753.27	169,713,579.93
21	<b>Other Income</b>	<b>2013</b>	<b>2012</b>
	<b>Recived in Suspence</b>		
	LLDF	-	-
	UDLIHP	-	-
	PCDP	-	-
	LGIIIP	-	-
	<b>Liquidated Damages Income</b>		
	LLDF	-	-
	UDLIHP	-	-
	PCDP	-	-
	LGIIIP	2,763,630.48	4,838,906.02
	<b>Other Income</b>		
	LLDF	4,783,325.10	462,836.92
	UDLIHP	-	4,977,393.53
	PCDP	-	-
	LGIIIP	-	1,111,416.21
		7,546,955.58	11,390,552.68



22 Administrative Expences	2013	2012
Staff Salaries	5,700,07.81	5,499,339.41
C.O.L Allowance - LLDF	1,821,600.00	1,652,625.00
Staff bonus	240,416.00	-
Allowance For Chairman.	475,590.00	460,590.00
Incentive- UDLIHP	72,000.00	78,000.00
Board of Commissioner's Travelling	348,080.00	303,760.00
Allowance For.B.Coms	672,600.00	772,800.00
E.P.F.	894,566.32	861,946.11
E.T.F.	223,641.32	215,486.52
Gratuity expenses	338,722.29	172,743.00
Overtime & Holly day Pay	168,330.82	129,455.52
Staff Welfare	148,497.00	127,784.50
Meeting Expenses	61,938.00	29,849.49
Audit Expenses	360,000.00	360,000.00
Postage & Telephone	213,058.28	125,865.92
Stationery / Printing	300,156.74	170,891.10
Vehicle Maintenance - 54/6233	54,400.00	144,073.98
Fuel	228,227.00	260,895.00
Electricity	490,308.16	345,534.55
Security Charges	270,441.20	164,073.28
Water Supply	38,363.00	32,191.40
Cleaning service Charges	186,132.40	78,680.88
Maintanance & Equipments	234,469.43	232,532.69
Maintanance & Building	40,572.00	7,000.00
Staff Training	969,459.92	962,670.00
Computer Maintance	18,350.00	5,000.00
Tax & Rates	701,110.00	101,110.00
Office rent	-	600,000.00
Awareness Program	-	266,267.50
Equipment Depreciation	148,914.30	189,493.79
Furniture and Fittings Depreciatuin	30,328.17	26,744.16
Computer Hardware ,Software	441,744.55	469,847.60
Depreciation		
LLDF Modernization - Assests	579,096.48	614,824.45
Depreciation		
Legal Expenses	4,050.00	323,125.36
Bank Charges	948.52	100,00
Development Ass. Traveling	773,799.06	716,135.28
	17,249,939.09	16,501,535.49



23	Net Grant amortization	<b>2013</b>	<b>2012</b>
	Grant Amortized-Expenses(Income Statement Debit)	383,103,645.50	301,234,905.97
	Grant Amortized-Revenue(Income Statement Credit)	(132,940,992.32)	(116,944,360.59)
		<u>250,162,653.18</u>	<u>184,290,545.38</u>
24	Financial Income	<b>2013</b>	<b>2012</b>
	Interest on Treasury Bill		
	LLDF	1,145,557.04	2,071,613.36
	UDLIHP	4,740,259.50	7,137,776.35
	PCDP	-	-
	LGIP	1,238,885.02	-
	Interest on Savings Deposits		
	LLDF	789,390.81	1,838,197.02
	UDLIHP	1,673,474.65	1,872,655.37
	PCDP	-	-
	LGIP	2,100,961.79	-
	Interest on Fixed Deposits		
	LLDF	6,056,833.68	2,695,254.78
	UDLIHP	8,726,176.60	10,471,963.69
	PCDP	-	-
	LGIP	349,764.34	4,042,747.24
		<u>26,821,303.43</u>	<u>30,130,207.81</u>



## ACCOUNTING POLICIES

### REPORTING ENTITY

Local Loans and Development Fund (LL&DF) is a statutory body established as a legal entity by the Local Loans and Development Ordinance No. 22 of 1916. The consolidated financial statements for the year ended 31<sup>st</sup> December 2013 cover its sub activities for which separate segment income statements are prepared. LL&DF own operation, Urban Development and Low income Housing Project (UDLIHP), Perennial Crop Development Project (PCDP) and Local Government Infrastructure Improvement Project (LGIIP) are the segments of the consolidation.

LGIIP activities at LL&DF is being operated from year 2008. Accounts and the financial results of the years 2013 has been consolidated.

### STATEMENT OF COMPLIANCE

The Balance Sheet, 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 items are presented separately aggregating with amounts of similar nature or function.

### BASIS OF CONSOLIDATION

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

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 their 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 represent 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 represents the grant disbursed to LAs. with the loan component. Debit grant treated as an expenditure is deferred and amortized in systematic way to the income statement throughout the years of interest received from the activity. Credit grant is also amortized in the same system. In this arrangement, the amalgamated before tax profit of LL&DF should not be fallen to less than 5% of the before tax and net amortization profit.

## **NON-PERFORMING LOAN**

Long dues of the loan capital/or interest are classified as non-performing and interest are accrued in an interest suspense account and will be reviewed continuously in accordance with the Sri Lanka Financial Reporting Standards (SLFRS).

## **PROVISION FOR LOAN LOSSES**

Specific provision for loan losses & doubtful 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.

## **RETIRNMENT BENEFIT OBLIGATIONS - GRATUITY**

Acturial valuation of Retiring Gratuity Obligations as at 31<sup>st</sup> December 2013 was carried using “Project Unit Credit Method as recommended by LKAS 19 – Employee Benefit Assumptions.

Discounting Rate	10%
Salary Increment Rate	5%
Staff Turnover	5%
Retirment Age	55

## **PROVIDENT FUND**

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

## **TRUST FUND**

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



## **INCOME STATEMENT**

### **INTEREST INCOME**

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

### **INTEREST AND OTHER EXPENSES**

Interest payable and other expenses are recognized on accrual basis.

### **LOAN AND AGREEMENTS**

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

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

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

### **IMPAIRMENT ASSESSMENT**

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

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



### **(a) INDIVIDUAL ASSESSED ALLOWANCES**

LL&DF determines the allowances appropriate for each individually significant Loans and Receivables on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowance are evaluated at each reporting date, unless unforeseen circumstance require more careful attention. LL&DF management determines the threshold limit at the rate of Rs.10 mn.

### **(b) COLLECTIVELY ASSESSED ALLOWANCES**

Allowances are assessed collectively for losses on loans that are not individually significant loans and advances that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events.

**H.T.Kamal Pathmasiri**

Chairman

Local Loans & Development Fund

Secretary- Ministry of Provincial Councils and Local Government



**LOCAL LOANS AND DEVELOPMENT FUND**  
**LOAN RELEASED AS AT 31.12.2013**

No.	Local Authority	Province	Amount (Rs.)	Construction weekly Fair & Economic Center	Construction of Crematoria	Establishment of Road Maintenance Unit	Purchase of Tractors	Construction of Public Market	Other Revenue Generating Projects
1	Matale P.S	CP	1,000,000				1,000,000		
2	Gangawatakorale P.S	CP	3,850,000			3,850,000			
3	Katuwana P.S	SP	13,200,000			13,200,000			
4	Athuraliya P.S	SP	850,000			850,000			
5	Mannar P.S	NP	6,768,000			6,768,000			
6	Galigamuwa P.S	SAB	1,343,000	1,343,000					
7	Dehiwala Mt. M.C	WP	20,510,400			20,510,400			
8	Buttala P.S	Uva	10,000,000			10,000,000			
9	Wellawaya P.S	Uva	20,000,000			20,000,000			
10	Thanamalvila P.S	Uva	10,000,000			10,000,000			
11	Polgahawela P.S	NWP	3,975,000			3,975,000			
12	Siyambalanduwa P.S	UVA	6,000,000			6,000,000			
13	Thambalagamuwa p.S	EP	3,200,000			3,200,000			
14	Harispattuwa P.S	CP	5,331,000					5,331,000	
15	Morawewa P.S	EP	9,520,000			9,520,000			
16	Gangawatakorale P.S	CP	2,310,000			2,310,000			
17	Dehiwala Mt. M.C	WP	10,309,600			10,309,600			
18	Manmunai P.S	NP	9,440,000			9,440,000			

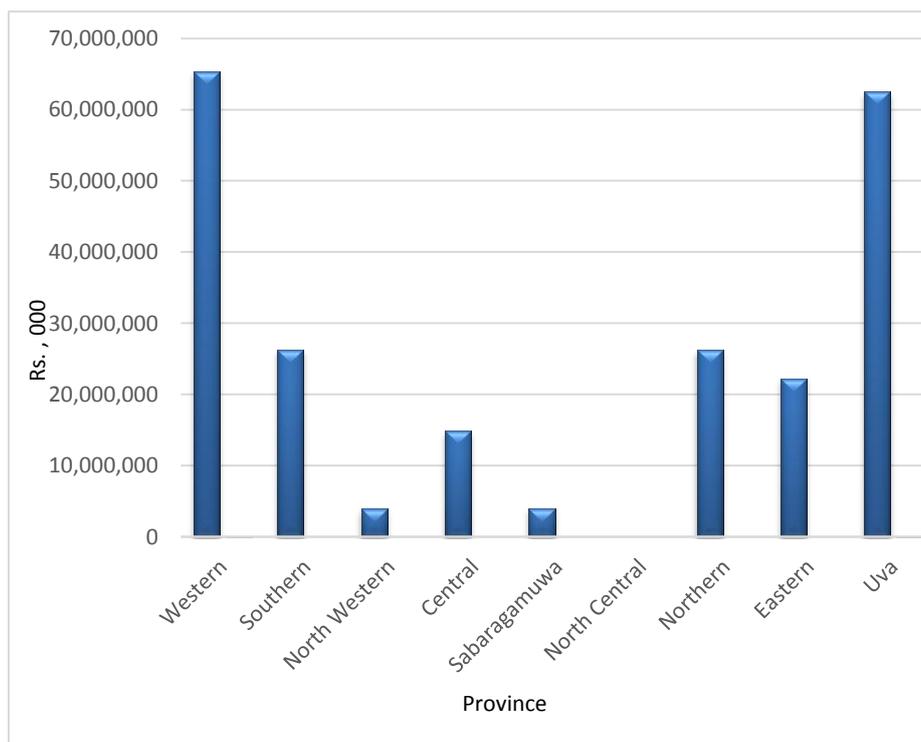


No.	Local Authority	Province	Amount (Rs.)	Construction weekly Fair & Economic Center	Construction of Crematoria	Establishment of Road Maintenance Unit	Purchase of Tractors	Construction of Public Market	Other Revenue Generating Projects
19	Diwulapitiya P.S								
20	Beruwala P.S	WP	7,213,000			7,213,000			
21	Jaffna M.C	NP	10,000,000			10,000,000			
22	Medagama P.S	UVA	9,520,000			9,520,000			
23	Balapitiya P.S	SP	7,480,000	7,480,000					
24	Kattankudy U.C	EP	9,520,000			9,520,000			
25	Sri J'Pura Kotte M.C	WP	10,000,000		10,000,000				
26	Pasgoda P.S	SP	1,828,000	1,828,000					
27	Talawakele P.S	CP	1,975,000		1,975,000				
28	Beruwala U.C	WP	8,540,000			8,540,000			
29	Weligama P.S	SP	2,975,000			2,975,000			
30	Kadugannawa U.C	CP	369,000						369,000
31	Kahawatta P.S	SAB	2,660,000					2,660,000	
32	Haputale P.S	UVA	7,000,000					7,000,000	
	<b>Total</b>		<b>225,479,000</b>	10,651,000	11,975,000	186,493,000	1,000,000	14,991,000	369,000



## LOAN DISBURSEMENTS PROVINCE WISE YEAR -2013

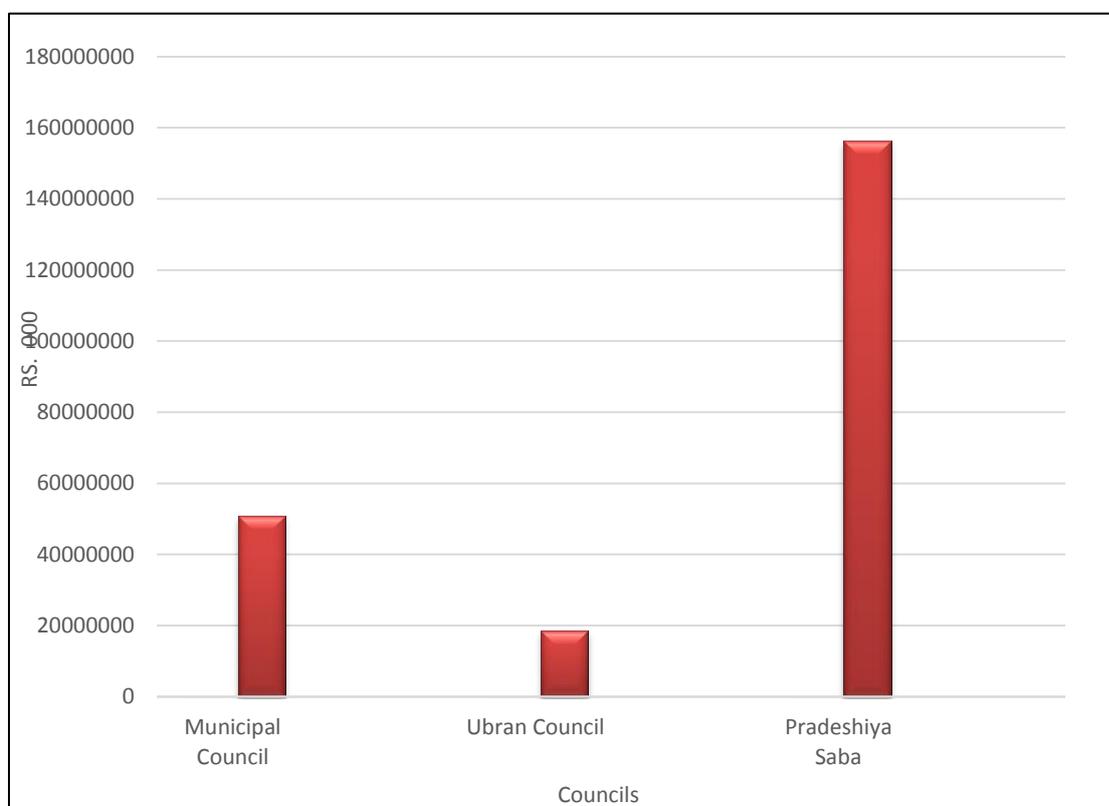
Province	Amount (Rs.)	Percentage (%)
Western	65,365,000	29
Southern	26,333,000	12
North Western	3,975,000	02
Central	14,835,000	07
Sabaragamuwa	4,003,000	02
North Central	-	00
Northern	26,208,000	12
Eastern	22,240,000	10
Uva	62,520,000	28
<b>Total</b>	<b>225,479,000</b>	<b>100</b>





## LOAN DISBURSEMENT FOR THE PERIOD – YEAR 2013 COUNCIL WISE

Council	Amount Rs.	% of the Total
Municipal Councils	50,820,000	23
Urban Councils	18,429,000	08
Pradeshiya Sabas	156,230,000	69
<b>Total</b>	<b>225,479,000</b>	<b>100</b>





**LOCAL LOAN AND DEVELOPMENT FUND**  
**LOAN REPAYMENT TO THE TREASURY**  
**2009 - 2013**

Year	Capital				Interest				Rs. Million Total
	LLDF	PCDP	UDLIHP	LGIIIP	LLDF	PCDP	UDLIHP	LGIIIP	
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
2013	22.8	1.02	90.8	-	20.4	5.8	99.0	35.6	275.4
<b>Total</b>	<b>113.0</b>	<b>3.94</b>	<b>369.0</b>	<b>-</b>	<b>116.5</b>	<b>33.0</b>	<b>397.5</b>	<b>99.3</b>	<b>1132.3</b>

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

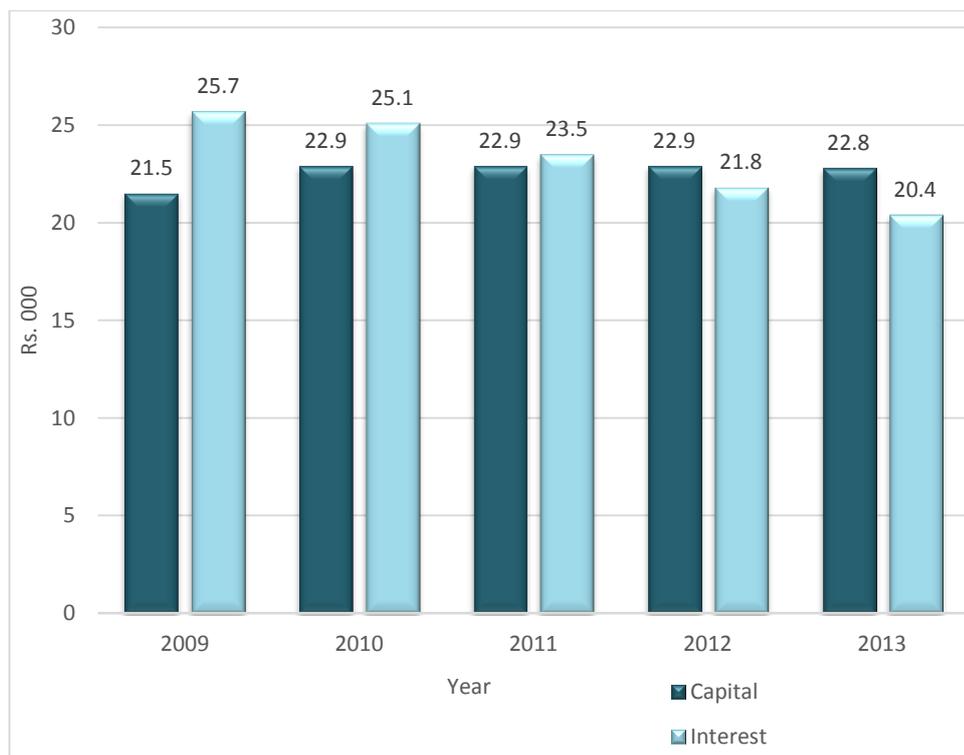
LLDF	Local Loan and Development Funds
PCDP	Preennial Crop Development Project
UDLIHP	Urban Development and Low Income Housing Project
LGIIIP	Local Government Infrastructure Improvement Project



**LOCAL LOAN & DEVELOPMENT FUND**  
**LOAN REPAYMENTS TO THE TREASURY 2009–2013**  
**LOCAL LOAN AND DEVELOPMENT FUND (LLDF)**

**Rs. 000**

<b>Year</b>	<b>Capital</b>	<b>Interest</b>
2009	21.5	25.7
2010	22.9	25.1
2011	22.9	23.5
2012	22.9	21.8
2013	22.8	20.4



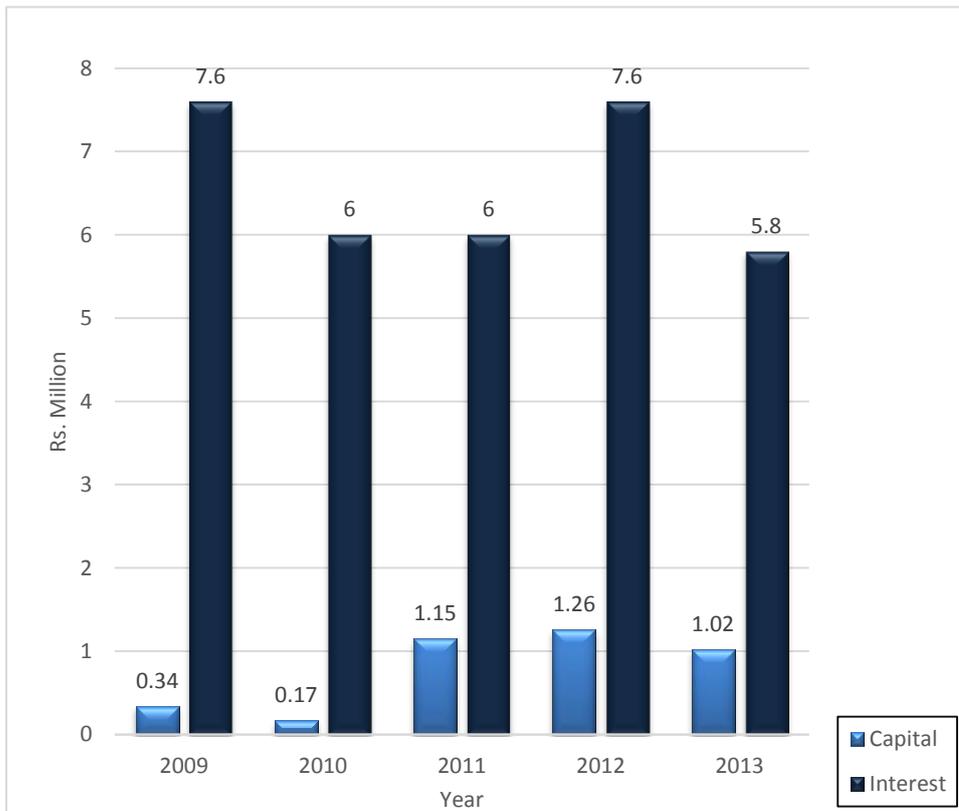


## LOAN REPAYMENTS TO THE TREASURY 2009 – 2013

Perennial Crop Development Project (PCDP)

Rs. Million

Year	Capital	Interest
2009	0.34	7.6
2010	0.17	6.0
2011	1.15	6.0
2012	1.26	7.6
2013	1.02	5.8



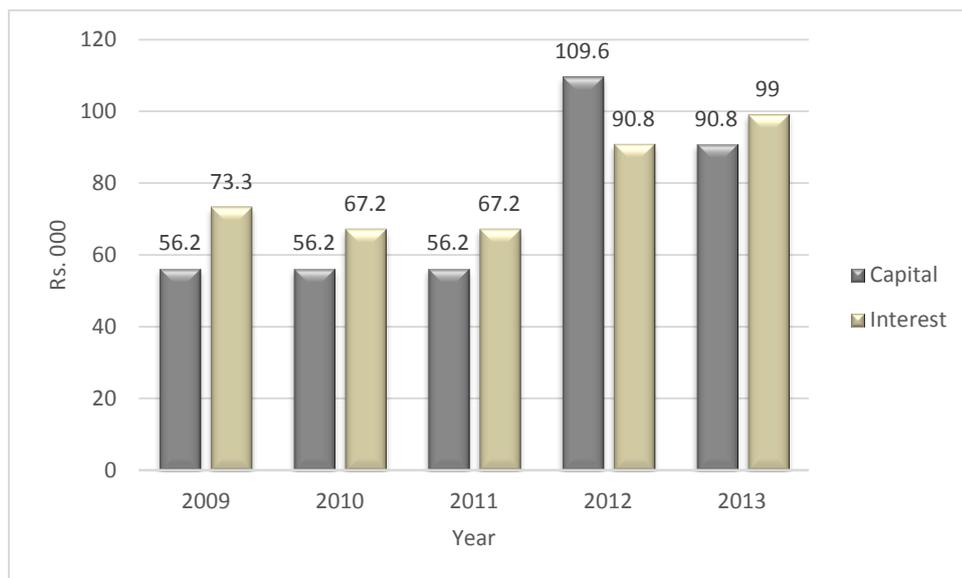


## LOAN REPAYMENTS TO THE TREASURY 2009–2013

### Urban Development and Low Income Housing Project (UDLIHP)

Rs. 000

Year	Capital	Interest
2009	56.2	73.3
2010	56.2	67.2
2011	56.2	67.2
2012	109.6	90.8
2013	90.8	99.0



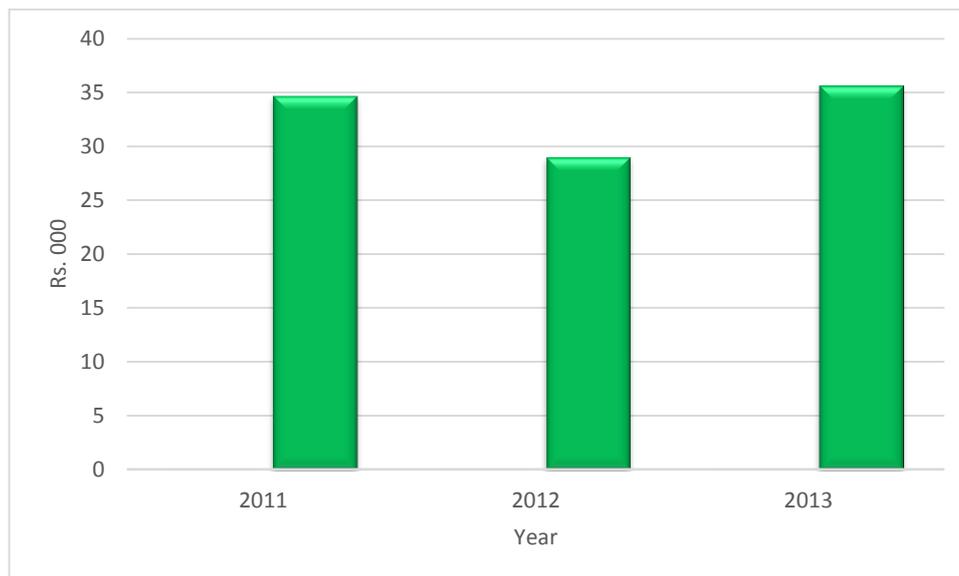


## LOAN REPAYMENTS TO THE TREASURY 2009–2013

### Local Government Infrastructure Improvement Project (LGIIP)

Rs. Million

Year	Interest
2011	34.70
2012	29.00
2013	35.65

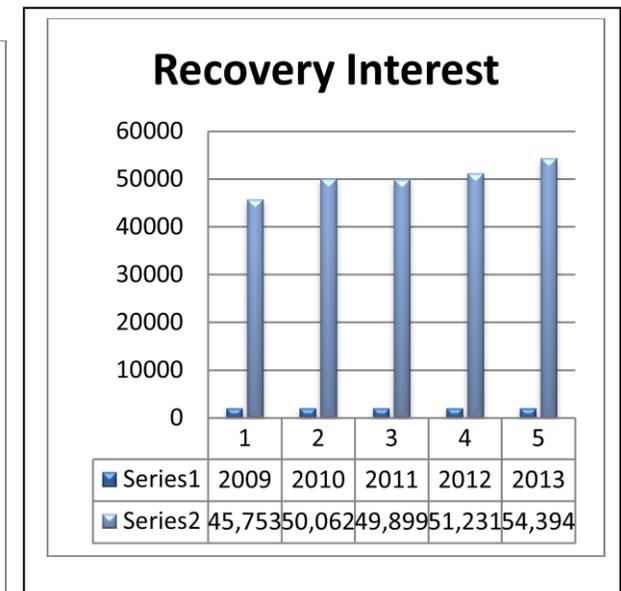
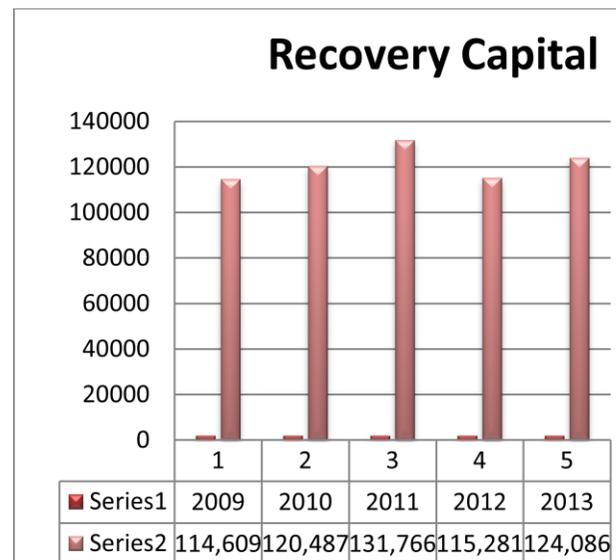
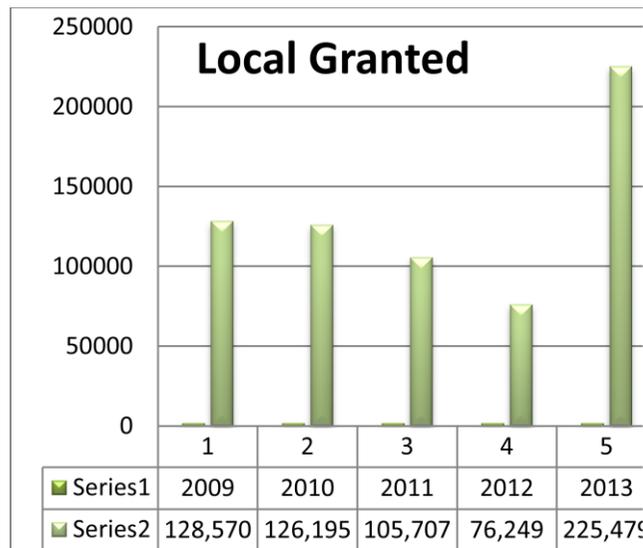




### Local Loan & Development Fund Activities 2009 - 2013

Rs. 000

Year	Local Granted	Recovery Capital	Recovery Interest
<b>2009</b>	128,570	114,609	45,753
<b>2010</b>	126,195	120,487	50,062
<b>2011</b>	105,707	131,766	49,899
<b>2012</b>	76,249	115,281	51,231
<b>2013</b>	225,479	124,086	54,394





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**கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்**  
**AUDITOR GENERAL'S DEPARTMENT**



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My No. }

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உமது இல.  
Your No. }

දිනය  
திகதி  
Date }

08 December 2017

The Chairman  
Local Loans and Development Fund

**Report of the Auditor General on the Financial Statements of the Local Loans and Development Fund for the year ended 31 December 2013 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 (the Fund) for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income and retained earnings, and statement of cash flows 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.

**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 circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well

අංක 306/72, පොල්දො පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka

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Auditor General's Department

as evaluating the overall presentation of the financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

**1.4 Basis for Qualified Opinion**

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

**2. Financial Statements**

**2.1 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Local Loans and Development Fund as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**2.2 Comments on Financial Statements**

**2.2.1 Compliance with Sri Lanka Accounting Standards (LKAS/SLFRS)**

The following observations are made.

**(a) LKAS 01 - Presentation of Financial Statements:**

The following instances of non-compliance were observed.

- (i) Comparative figures of Property, Plant and Equipment had not been disclosed in the financial statements.
- (ii) The statement of changes in equity had not been presented with the financial statements for the year under review.
- (iii) Significant accounting policies in relation to taxation and loan and receivables had not been disclosed and accounting policies relating to the Property, Plant and Equipment had not provided required information.
- (iv) Although the financial statements had been restated, it had not been properly disclosed.
- (vi) Even though sub schedule numbers are mentioned in the notes to the financial statements, those had not been reflected in the financial statements.

**(b) LKAS 10 –Events after the Reporting Period**

The Company had not disclosed the date of the financial statements was authorized.



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**(c) LKAS 12 – Income Taxes**

Differed tax asset/liability had not been recognized in the financial statements.

**(d) LKAS 19 – Employee Benefits**

Details such as current service cost, re-estimated net defined benefit liability and past service cost regarding the employee benefits had not been properly disclosed.

**2.2.2 Accounting Deficiencies**

The following observations are made.

- (a) The Fund had not recognized the interest income on fixed deposits of Rs 14,994,954 for the year under review. Hence, the profit for the year under review and value of investment as at 31 December 2013 had been understated by that amount.
- (b) A sum of Rs.250,162,653 had been debited to the income statement as an amortization instead of Rs.209,499,354 due to erroneous computation. Therefore, the profit of the Fund for the year under review had been understated by Rs.40,663,299.
- (c) The interest receivable in suspense and interest in suspense accounts as at 31 December 2013 had been overstated by Rs 242,627 as a result of erroneous calculation.
- (d) Deficiencies observed in the recognition of income, loan balance and interest receivables on loans given to the Local Authorities are given below.
  - (i) Even though a sum of Rs.96,366,315 was shown in the financial statements as initial loans, those loans had been rescheduled as Rs.82,500,000 on 01 January 2012 resulting a loss of Rs.13,866,315 to the Fund. However, this had not been adjusted in the respective loan account and as such the loan balance had been overstated by Rs.13,866,315 as at 31 December 2013.
  - (ii) As Fund had reduced loan payable to General Treasury by Rs.13,866,315 with effect from 01 January 2012 without obtaining approval from the Treasury, it had to pay interest to Treasury on initial loan and therefore, the Fund had excessively paid Rs.1, 455,963 as interest for the period of 2012 and 2013.
- (e) The loans and receivables shown in the statement of financial position as at 31 December 2013 had been understated by Rs.23,262,479 due to deducted not only provision for bad debt but also provision for impairment.



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- (f) According to the loan schedule of the Local Government Infrastructure Improvement Project (LGIIP), interest income for the year and interest receivable as at 31 December 2013 were Rs 167,146,395 and Rs.93,305,400 respectively. However, it was shown in the financial statements as Rs 147,407,845 and Rs.74,931,381 respectively. Hence, the interest income and interest receivables as at 31 December 2013 had been understated by Rs.19,738,550 and Rs 18,374,019.
- (g) The LLDF loan installments of Rs.510,000 had remained in the advance account for more than one year without transferring to the relevant accounts. As such, the loan balances shown in the financial statements had been overstated by similar amount as at 31 December 2013.
- (h) According to the loan schedule the interest income on the loans provided by the Fund for the year under review was Rs.52,956,299. However, a sum of Rs.51,154,999 had only been shown in the financial statements as interest income. Therefore, the interest income for the year under review had been understated by Rs.1,801,300. Further, interest for a loan worth Rs.8,364,306 had not been calculated and brought to the accounts.
- (i) Although interest income for the year should be Rs.126,512,986 as per the loan ledger and interest calculation schedules of the Urban Development Low Income Housing Project (UDLIHP), a sum of Rs.92,909,677 only had been taken into account as income. Thus, the interest income had been understated by Rs.33,603,309 during the year under review.
- (j) The interest income on fixed deposits and treasury bills for the year 2012 amounting to Rs.1,216,741 and Rs.1,306,001 respectively relating to the UDLIHP had been erroneously taken as an income for the year 2013. Thus, the interest income for the year under review had been overstated by Rs.2,522,742 in the financial statements. Further, an interest income of Rs.946,810 on a loan given to an Urban Council related to the year 2012 had been treated as income for the year 2013. Hence, interest income had been overstated by similar amount.
- (k) According to the accounting policies disclosed in the financial statements, it was stated that the depreciation on office furniture should be calculated at a rate of 5 per cent per annum. However, the depreciation for office furniture purchased at a cost of Rs.454,020 in the year 2008 had been calculated at a rate of 20 per cent per annum. As such cumulative depreciation as at 31 December 2013 and depreciation for the year under review had been overstated by Rs.317,814 and Rs.41,618 respectively.
- (l) The loan balance as at 31 December 2013 relating to the Local Government Infrastructure Improvement Project had been overstated by Rs.4,068,968 due to incorrect recognition of grant balance in the loan account.



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### 2.2.3 Un-reconciled Differences

Un-reconciled differences aggregating Rs 41,860,918 related to 09 accounts were observed between the balances shown in the financial statements and the corresponding records.

### 2.2.4 Unidentified Differences

Differences totaling Rs 16,921,025 were observed between the interest receivable balances shown in the financial statements and the corresponding balances shown in the schedules submitted for audit and the reasons for these differences were not explained to audit.

### 2.3 Non-compliance with Laws, Rules, Regulations, and Management Decisions

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

<u>Reference to Laws, Rules, Regulation etc.</u>	<u>Non-Compliance</u>
(a) Financial Regulation 754	Even though the Fund had purchased stationaries, 24 office bags and 40 calculators worth Rs.300,157, Rs.90,180 and Rs.35,270 respectively during the year under review, movements of inventory had not been properly updated. Further, the Boards of Survey for the year 2013 had not been conducted even up to the end of the year under review.
(b) Scheme of Recruitments followed by the Fund.	All the appointments to the Fund should be done in accordance with the Scheme of Recruitments of the Fund. In contrary to that, the officer who did not have basic educational qualifications required for the post had been appointed as Deputy Director (Operation) in the year 2012 and that officer is being functioning the duties of such post up to the end of the year 2013.
(c) Treasury Circular No. IAI/2002/02 of 28 November 2002	A register for computers, computer accessories and software had not been maintained.

### 3. Financial Review

#### 3.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year ended 31 December 2013 had resulted in a pre-tax net loss of Rs.246,455,922 as compared with the corresponding pre-tax net loss of Rs.335,404,859 for the preceding year, thus indicating an improvement of Rs.88,948,937 in the financial result for the year under review. Increase of interest income on loans granted by Rs.14,991,233 and decrease of



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impairment for loan by Rs.146,210,891 were the main reasons attributed for this improvement.

The value addition of the Fund for the year under review after taking into account the depreciation, tax expenses and personal emoluments aggregating Rs 14,351,144 was negative value of Rs 233,904,778.

### 3.2 Analytical Financial Review

#### 3.2.1 Significant Accounting Ratios

According to the information made available, some important accounting ratios of the Fund for the year under review and preceding year are given below.

<u>Ratios</u>	<u>2013</u>	<u>2012</u>
Net loss to Total income (percentage)	73.75	102.77
Current Asset Ratio (Number of Times)	16.7:1	119:1
Staff Cost to Operating Expenses (percentage)	4.8	4.5

- (a) According to the financial statements presented to audit, the Fund had reported losses since the year 2012. However, the net loss ratio had decreased from 102.77 per cent in the year 2012 to 73.75 per cent in the year 2013 due to decline of net loss by Rs 89,248,937 in the year 2013.
- (b) The Fund had reported a higher current asset ratio mainly due to recognition of loan and receivable under current assets and maintenance of considerable deposits in saving accounts.

### 4. Operating Review

#### 4.1 Performance

The following observations are made

- (a) According to Section 5 of the Local Loans and Development Fund (amendment) Act, No. 24 of 1993, the purpose for which loans may be granted by the Fund is for any work of public utility including technical assistance. Accordingly, the Fund had provided loans under five projects and the outstanding balances as at the end of the year 2013 and preceding year is as follows.



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Name of the Projects	Outstanding Loan Balances as at 31 December	
	2013	2012
	Rs.	Rs
Local Loan and Development Fund (LL&DF)	619,124,948	517,621,456
Urban Development and Low Income Housing Project (UDLIHP)	1,706,194,130	1,788,745,619
Local Government Infrastructure Improvement Project (LGIIIP)	1,735,734,362	1,729,974,677
Personal Crop Development Project (PCDP)	69,356,658	70,733,648
Projects for National Water Supply and Drainage Board (NWS&DB)	9,215,880	9,995,449
<b>Total</b>	<b><u>4,139,625,978</u></b>	<b><u>4,117,070,849</u></b>

According to available information, the financial facilities of more than 83 per cent and 85 per cent had been provided to the Local Authorities under the UDLIHP and LGIIP respectively. However, the Fund had not set out targets for granting loans from these Projects.

- (b) A sum of Rs.300 million had been allocated for providing loans for various activities during the year under review and out of that a sum of Rs.225.47 million had been given as loans during the year under review. The progress of this loan is summarized and shown below.

Name of Activity	Allocation of Fund		Funds Disbursed during the year		Utilization of Fund as percentage of Allocation
	Number of Projects	Amount	Number of Projects	Amount	
		Rs. Mn.		Rs.Mn.	
Purchase of Machineries and Equipment	15	75	25	197.86	264
Construction of Office Building, Libraries and Memorial Halls	3	25	-	-	-
Construction of Crematoriums	4	25	1	1.97	8



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Construction of Weekly Fairs and Economic Centers	6	30	4	10.65	36
Construction of Market Buildings	4	50	3	14.99	30
Environmental and Tourism Projects	-	10	-	-	-
Development of Roads	-	20	-	-	-
Waste Management Projects	2	25	-	-	-
Water Projects	2	15	-	-	-
Other Revenue Earning Projects	8	25	-	-	-
<b>Total</b>	<b>44</b>	<b>300</b>	<b>33</b>	<b>225.47</b>	<b>75</b>

The following observations are made in this regard.

- (i) Even though the Fund had allocated a sum of Rs.120 million for five activities including waste management, those activities had not been initiated even in the year under review.
- (ii) Out of other activities, the performance at the end of the year appeared to be less than 40 per cent except the funds allocated for purchase of machineries and equipment. The Fund had spent Rs. 197.86 million for purchase machineries and equipment even though only Rs. 75 million had been allocated for this purpose. However, other activities which Rs 225 million have been allocated were the significant functions of the Local Authorities.

#### **4.2 Idle Assets**

A sum of Rs.1,302,214 had been spent for purchase and installation of local area network (software) in 2009 under the Local Government Infrastructure Improvement Project for the purpose of disbursement and recovery of loans. However, this asset had been remained idle since the date of installed.

#### **4.3 Identified Losses**

The software purchased in year 2009 for Loan Management Systems and Financial Accounting at a cost of Rs.235,200 had not been used for the intendant purpose as it was not suite with the need of the Fund.



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#### 4.4 Human Resources Management

The following observations are made.

- (i) Five officers were appointed in time to time as Chief Executive Officer (CEO) of the Fund since 2010 to 31 December 2013. Further, the current CEO also had been appointed only for a period of one year. Hence, change of such key positions frequently may affect the smooth function of the Fund.
- (ii) Although assistant accountant of the Fund had been appointed as Deputy Director (Finance & Administration) in two instances by the Board of Commissioners during the year 2014, he had not been issued a formal letter of appointment even up to the end of the year 2014. Further, Board of Commissioners at the meeting held on 29 December 2015 had decided to appoint another person as Deputy Director (Finance and Administration) with effect from an of 01 August 2015.

#### 5. Accountability and Good Governance

##### 5.1 Internal Audit

The Internal Auditor of the line Ministry had been appointed to cover the internal audit functions of the Fund. However, only one audit query had been issued during the year under review and adequate actions had not been taken to appoint a permanent Internal Auditor to cover the major risk areas of the Fund until end of the year 2013.

##### 6. Systems and Controls

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

<u>Control Area</u>	<u>Observations</u>
(a) Accounting	Some entries which were passed to correct errors made in 2012 in the income statement had been erroneously carried forward for the year 2013. Further, general ledger had not been properly maintained by the Fund.
(b) Recovery of outstanding loans and interest	It was not observed in implementation of a formal plan to recover the loans. Accordingly, the most of loans given by the Fund were reported as in arrears. Further, some non-performing loans had been rescheduled without considering profitability to the Fund and adjustments for most of such rescheduled loans had not been made in the financial statement as per the rescheduled information.

H.M. Gamini Wijesinghe  
 Auditor General