LOCAL LOANS & DEVELOPMENT FUND

ANNUAL REPORT AND ACCOUNTS

2014

MINISTRY OF INTERNAL & HOME AFFAIRS AND PROVINCIAL COUNCILS & LOCAL GOVERNMENT

CONTENTS

LOCAL LOANS AND DVELOPMENT FUND

BOARD OF COMMISIONERS

(as at 31st December 2014)

Chairman		
01.Mr.R.A.A.K.Ranawake	Secretary, Ministry of Local Government and Provincial Councils	
Treasury Representative		
02.Mr.N.Kulasekara	Chief Accountant, Ministry of Finance & Planning	
Members		
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.Ms.D.W.S.Rajapakshe	Commissioner of Local Government	Sab
09.Mr.M.Y.Saleem	Commissioner of Local Government	EP
10.Mr.M.Jegu	Commissioner of Local Government	NP
11.Ms.Dilekha Kudachchi	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	

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 Authoritiesin 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 - 2014.

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 341 Nos. It provides Long Term loans at concessionary rates of interest.

REGISTERED OFFICE	No.24 A, Ward Place, Colombo 07
TELEPHONE	011-2687514
FAX	011-2691261
E-mail	lldf1916@gmail.com

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 31st December 2014.

Designation	**No of Employeed**
Chief Executive Officer	01
Deputy Director (Operation)	01
Assistant Accountant	01
Development Officer’s	22
Management Assistant	06
Driver	01
Office Aide	02
Total	**34**

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&DFso that no individual has unfettered powers of decision making.

CHAIRMAN'S ROLE

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

APPOINTMENT TO THE BOARD

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

ACCOUNTABILITY AND AUDIT

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

MAINTAINING A SOUND SYSTEM OF INTERNAL CONTROL & RISK MANAGEMENT

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

PERIODICAL REVIEW OF THE ADEQUACY AND EFFECTIVENESS OF INTERNAL CONTROL

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

FINANCIAL REPORTING

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

GOING CONCERN

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

STATUTORY OBLIGATIONS

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

RELATIONSHIP WITH OTHER STAKE HOLDERS

a) Employees

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

b) Regulatory Bodies

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

c) Environment

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

OPERATIONAL AND FINANCIAL REVIEW

PERFORMANCE IN THE YEAR 2014

Rs.600 million was allocated in the institutional Budget in 2014 for the purpose of granting loans to the Local Authorities. During the year total Loans granted to 34 Local Authorities were Rs.303 million. Performance is considered as good as its average of 50%. These Loans are repayable during a period of 05-10 years at concessionary rates of interest. Loans granted summary as follows;

LOANS GRANTED SUMMARY
YEAR - 2014

	Category	Interest Rate	Amount (Rs.)	No of Projects
1	Establishment of Road Maintenance Unit	9.0%	86,415,000	08
2	Construction of Crematoria	6.5%	63,400,000	11
3	Construction of Market Buildings	9.0%	90,192,730	06
4	Improvement of Weekly Fairs	6.5%	47,575,000	04
5	Supply of Tractors	9.0%	3,000,000	01
6	Purchase of Double Cabs	9.0%	6,000,000	01
7	Water Supply Projects	7.0%	5,000,000	01
8	Other Revenue Generation Projects	9.0%	1,810,000	02
			303,392,730	**34**

INCOME

The fund has earned a Gross Income of Rs.164 million on operations (Including ADB funded projects). Further Rs.18.9 million has been earned by investing revolving funds, in State Banks. Net loss of Rs.56 million has been earned after making operational expensesand amortization of Rs.195 million (grant component) to LA's under LGIIP project. Further the imparement for loans and receivales for the year 2014 is Rs.96 million. Loss before tax is Rs.134 million.

Interest Income, Investment Income and Interest Payment to the Treasury during the year 2014 (Project Wise)

(Rs.Million)

	LLDF	PCDP	UDLIHP	LGIIP	Total
Interest Income	54.4	5.9	120.5	142.7	323.5
Interest Payment to the Treasury	18.6	5.2	100.1	35.5	159.4

Investment Income - Year 2014

(Rs.Million)

Catogary	LLDF	PCDP	UDLIHP	LGIIP	Total
Treasury Bills	0.8	-	2.6	0.9	4.3
Fixed Deposits	2.2	-	4.8	0.09	7.09
Fund Management Account	0.9	-	2.4	3.9	7.2
Total	3.9	-	9.8	4.89	18.59

Net Income from last 05 years – 2010 -2014

(Rs.Million)

Year	Net Income Before Tax (Rs.Million)
2010	11.0
2011	(47.0)
2012	(335.4)
2013	(246.4)
2014	(134.1)

REPAYMENT TO THE TREASURY

During the year Capital repayment to the Treasury was Rs.22.5 million. and the interest payment to the Treasury was Rs.18.6 million for loans obtained under LL&DF and Rs.90.8 million has been paid to the Treasury as capital and Rs.100 million as interest under UDLIHP. The Rs.35.5 million has been paid to the Treasury as interest under LGIIP. Further under ADB Loan No.899 SRI (SF) Rs.3.8 million has been paid to the Treasury as capital and Rs.5.2 million has been paid as interest.

(Rs.Million)

PROJECT	CAPITAL REPAYMENT	INTEREST PAYMENTS	TOTAL
LLDF	22.5	18.6	41.1
PCDP	3.8	5.2	9.0
UDLIHP	90.8	100.0	190.8
LGIIP	-	35.5	35.5
Total	117.1	159.3	276.4

RECOVERIES

Rs.130 million and Rs.53.6 million was recovered being capital and interest due from loans granted by LL&DF own Operations. Further Rs.89.6 million and Rs.80 million recovered, being capital and interest on ADB Loan No.1632.SRI (SF). Rs.1.5 million and Rs.7.3 million was recovered under PCDP as capital and interest during the year. Further Rs.116.2 million and Rs.143.2 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	130.0	53.6	183.6
PCDP	1.5	7.3	8.8
UDLIHP	89.6	80.0	169.6
LGIIP	116.2	143.2	259.4
TOTAL	**337.3**	**284.1**	**621.4**

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	Recovery Capital	Recovery Interest
2010	62.1	93.6
2011	71.7	102.4
2012	76.6	93.5
2013	82.4	90.3
2014	89.6	80.0

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

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

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

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

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

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

REPORT OF THE AUDIT AND MANAGEMENT COMMITTEE
YEAR - 2014

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) PREPARATION OF FINANCIAL STATEMENTS FOR THE YEAR 2012 AND 2013

As instructions given by the Auditor General's Department 2012 and 2013 Financial Statements should be prepared in accordance with the Sri Lanka Financial Reporting Standards (SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka. Therefore the Committee advised to outsouce preparation of financial statements and forward to the Audito General's Department soon.

(02) STAFF TRAINING

The Committee advised to train LLDF staff for preparation of Financial Statements in accordance with the new Accounting Standerds.

(03) CORPORATE PLAN AND ACTION PLAN

Reviewed and discussed the Corporate Plan and advised to update 2014 Corporate Plan of the Institute.

(04) 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 EASTE 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.

(05). RECOVERY OF OVERDU LOANS

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

(06) 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.

(07). 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.

(08). 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.

(09). Internal Audit Report - 2012

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

(10). 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.

(11). Bard of Survey

The Committee advised to the relevant Officiers to finalize 2014 Board of Survey and to submit to the Internal Auditor soon.

COMMITTEE MEMBERS - YEAR 2014

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 31.12.2014	**Note**	**2014** Rs. Cts.	**2013** Rs. Cts.
Revenue			
Interest Income	19	323,611,441.91	299,820,521.28
Interest Expenses	20	(159,448,822.07)	(168,193,753.27)
Net Interest Income		**164,162,619.84**	**131,626,768.01**
Other Income	21	670,316.06	7,546,955.58
Administrative Expences	22	(25,991,061.44)	(17,249,939.09)
Net Grant amortization	23	(195,102,503.09)	(250,162,653.18)
Operating Loss		**(56,260,628.63)**	**(128,238,868.68)**
Imparement for Loans and receivables		(96,819,054.65)	(145,038,356.40)
Financial Expenses		-	-
Financial Income	24	18,966,702.40	26,821,303.43
Loss Before Tax		**(134,112,980.88)**	**(246,455,921.65)**
Tax Expencess		(1,300,000.00)	(1,800,000.00)
Loss After Tax		**(135,412,980.88)**	**(248,255,921.65)**
Net Profit for the year		(135,412,980.88)	(248,255,921.65)
Retained Earnings At the Beginning of the year		(804,339,321.21)	(556,083,399.56)
Retained Earnings At the End of the year		**(939,752,302.09)**	**(804,339,321.21)**

Local Loans and Development Commissioners
(Local Loans and Development Fund)
Statement of Financial Position
As at 31st December 2014

As at 31st December 2014	Note	2014 Rs. Cts.	2013 Rs. Cts.
ASSETS			
Non Current Assets			
Property, Plant & Equipment	1	18,752,097.50	2,848,978.70
Investment in Fixed Deposit and Treasury Bills	2	296,085,567.43	295,543,011.38
Grant given to LA -LGIIP	3	1,527,466,141.02	1,846,373,896.45
Staff Debtors	4	4,132,682.51	3,255,199.51
Total Non Current Assets		**1,846,436,488.46**	**2,148,021,086.04**
Current Assets			
Debtors	5	3,350,479,316.58	3,482,315,093.62
Loan Interest Receivables	6	195,286,932.80	149,934,571.46
Refundable Deposits		40,051.61	40,051.61
Investment Income Receivable - UDLIHP	7	2,522,742.00	2,522,742.00
Suspense account - LGIIP		199,054.38	-
Cash Balance at PMU		19,500,745.64	19,500,745.64
Cash & Cash Equivelent	8	78,105,724.11	177,750,550.48
Total Current Assets		**3,646,134,567.12**	**3,832,063,754.81**
Total Assets		**5,492,571,055.58**	**5,980,084,840.85**
EQUITY & LIABILITIES			
Equity			
Retained Earnings	9	(939,752,302.09)	(804,339,321.21)
Total Equity		**(939,752,302.09)**	**(804,339,321.21)**

Liabilities

Non Current Liabilities

Borrowings from General Treasury	10	2,119,104,945.05	2,236,290,786.87
Borrowing from ADB-LGIIP	11	3,551,530,832.49	3,551,530,832.49
GOSL Grant -LGIIP	12	596,055,986.27	760,524,537.95
Provision for Gravitity	13	2,348,607.37	1,782,690.29
Retention Payable to LA		-	-
Govt.Assistance(Capital)-LGIIP	14	6,075,231.07	6,075,231.07
Total Non Current Liabilities		**6,275,115,602.25**	**6,556,204,078.67**
Current Liabilities			
Interest payable to the General Treasury	15	117,095,176.89	187,095,177.09
Suspence Received		-	-
Provisions & Accrude Expenses	16	9,043,144.92	7,980,439.00
Recived in Advance	17	10,990,972.47	11,744,499.58
Current tax Liability	18	577,715.50	1,899,222.08
Current Liability to LGIIP (C. A/C op.)		19,500,745.64	19,500,745.64
Total Current Liabilities		**157,207,755.42**	**228,220,083.39**
Total Liabilities		**5,492,571,055.58**	**5,980,084,840.85**

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

Local Loans and Development Fund
Statement of Cash Flows

For the year ended 31.12.2014	2014 Rs. Cts.	2013 Rs. Cts.
Cash Flows From Operating Activities		
Net profit before taxation	(134,112,980.88)	(246,455,921.65)
Adjustment for		
Interest Paid	-	-
Interest Income	(18,966,702.40)	(26,821,303.43)
Depreciation	2,245,807.60	1,200,083.50
Provisions	-	-
Provision for gratuity	565,917.08	338,722.29
Adjustment to gratuity	-	-
Suspense Account	(199,054.38)	559,414.61
Operating Profit before Working Capital Changes	**(150,467,012.98)**	**(271,179,004.68)**
(Increase)/Decrease in Debtors & Receivables	86,483,415.70	133,155,637.37
(Increase)/Decrease in Grant given to LA LGIIP	318,907,755.43	208,211,076.72
Increase/(Decrease) in Other Receivables	-	-
Increase/(Decrease) in Advance Received	(753,527.11)	8,832,547.04
Increase/(Decrease) in Staff Debtors	(877,483.00)	(575,534.49)
Increase/(Decrease) in Interest Payble to General treasury	(70,000,000.20)	-
Increase/(Decrease) in Trade Creditors & Other Payables	1,062,705.92	(3,104,879.00)
Increase/(Decrease) in Borrowings	(117,185,841.82)	(126,173,176.29)
Cash generated from operation	**67,170,011.94**	**140,372,344.45**
Interest Paid to General Treasury	-	-
Interest Received	18,966,702.40	26,821,303.43
With Holding Tax Paid		

	(1,280,876.65)	(1,335,786.00)
Income Tax Paid	(1,340,629.93)	(1,407,663.00)
Net cash used in operating activities	**83,815,207.76**	**164,450,198.88**
Cash flow from investing activities		
Purchase of Property, Plant & Equipment	(18,148,926.40)	(49,500.00)
Sale proceed of disposal	-	-
Fixed Deposit	-	(10,000,000.00)
Treasury bill	(542,556.05)	-
Net Cash used in investing activities	**(18,691,482.45)**	**(10,049,500.00)**
Cash flow from financing activities		
Loan Obtained	-	1,425,354.54
Loan Repayment	(164,468,551.68)	(37,099,247.40)
Net cash from financing activities	(164,468,551.68)	**(35,673,892.86)**
Net decrease in cash and cash equivalents	**(99,644,826.37)**	**118,726,806.02**
Cash and cash equivalent beginning of the year (Note A)	197,251,296.12	78,524,490.10
Cash and cash equivalent end of the year (Note A)	**97,606,469.75**	**197,251,296.12**

NOTE A

Cash & Cash Equivalents	2014	2013
	Rs. Cts.	**Rs. Cts.**
Savings Deposits	99,097,476.70	165,666,792.55
Cash Balance at PMU	19,500,745.64	19,500,745.64
Cash at bank	(20,991,752.59)	12,083,757.93
Cash and Cash equivalent end of the year	**97,606,469.75**	**197,251,296.12**

LOCAL LOANS & DEVELOPMENT COMMISSIONERS

Local Loans and Development Fund

Notes to the Financial Statements

For the year ended 31.12.2014

1 **Fixed Assets**

Cost

Description	**Cost as at 01.01.2014**	**Additions/ (Disposals)**	**Cost as at 31.12.2014**
Office Equipment	2,105,696.16	137,985.50	2,243,681.66
Furniture and Fittings	606,563.15	4,544,309.47	5,150,872.62
Computer Hardware ,software & Office Equipment	4,546,364.00	2,349,238.00	6,895,602.00
LLDF Modernization - Assests	1,389,013.55	3,122,393.43	4,511,406.98
Total	**8,647,636,86**	**7,955,000.00**	**7,995,000.00**

Accumulated Depreciation

Description	**Balance as at 01.01.2014**	**Depreciation for the year**	**Balance as at 31.12.2014**
Office Equipment	1,897,254.87	82,899.06	1,980,153.93
Furniture and Fittings	118,490.89	1,051,169.20	1,169,660.09
Computer Hardware ,software & Office Equipment	1,854,137.35	-	1,854,137.35
LLDF Modernization - Assests	1,928,775.05	312,239.34	2,241,014.39
Motor Vehicle – Nissan/XTRAIL	**-**	**799,500.00**	**799,500.00**
Total	**5,798,658.16**	**2,245,807.60**	**8,044,465.76**

Written Down Value	**2,848,978.70**		**18,752,097.50**

02	Investment in Fixed Deposit	2014	2013
	Fixed Deposits	236,855,292.05	226,855,292.05
	Treasury Bill	59,230,275.38	58,687,719.33
		296,085,567.43	**285,543,011.38**

03	Grant given to LA -LGIIP	2014	2013
	Grant given to LA's	2,841,795,121.45	2,841,795,121.45
	Less:Grant amortized 2014	(1,314,328,980.43)	(995,421,225.00)
		1,527,466,141.02	**1,846,373,896.45**

04	Staff Debtors	2014	2013
	Distress Loan	4,098,682.51	3,232,199.51
	Festival Advance	34,000.00	23,000.00
		4,132,682.51	**3,255,199.51**

05	Debtors	2014	2013
	LLDF(UC,MC,PS)	792,304,472.38	619,124,948.12
	UDLIHP	1,616,213,801.13	1,706,194,130.12
	LGIIP	1,619,525,855.00	1,735,734,362.20
	PCDP	67,847,622.91	69,356,658.37
	N.W.S.&D.B.	8,717,505.22	9,215,880.22
		4,104,609,256.64	**4,139,625,979.03**
	Less - Provision for imparement		
	Balance as at 01st Jan 2014	657,310,885.41	512,272,529.01
	Add - Provision for the year	96,819,054.65	145,038,356.40
	Balance as at 31st December 2014	**754,129,940.06**	**657,310,885.41**
		3,350,479,316.58	**3,482,315,093.62**

6	Loan Interest Receivables	2014	2013
	LLDF	24,350,084.30	19,478,744.99
	UDLIHP	95,143,335.83	55,524,443.20
	PCDP	-	-
	LGIIP	74,750,247.63	74,931,383.27
	Treasury Interest Receivable - LGIIP	-	-
	Liquidates damages Receivable – LGIIP	1,043,265.04	-
	Additional Interest Receivable - LGIIP	-	-
	NWS & DB	-	-
		195,286,932.80	**149,934,571.46**
	Non Performing Loans-LLDF	-	-
	Non Performing Loans-PCDP	-	-
	Non Performing Loans-UDLIHP	-	-
		195,286,932.80	**160,606,981.72**

7	Investment Income Receivable - UDLIHP	2014	2013
	Interest Receivanle Treasury Bill - UDLIHP	1,306,001.00	1,306,001.00
	Interest Receivable on FD - UDLIHP	1,216,741.00	1,216,741.00
		2,522,742.00	**2,522,742.00**

8	Cash & Cash Equivelent	2014	2013
	Savings Deposits	99,097,476.70	165,666,792.55
	Cash at bank	(20,991,752.59)	12,083,757.93
		78,105,724.11	177,750,550.48

9	Retained Earnings	2014	2013
	Balance at the beginning of year	(804,339,321.21)	(556,083,399.56)
	Loss for the year	(135,412,980.88)	(248,255,921.65)
		(939,752,302.09)	(804,339,321.21)

10	Borrowings from the Treasury	2014	2013
	LLDF	237,393,165.24	259,968,955.24
	UDLIHP	1,815,794,838.96	1,906,599,867.55
	PCDP	65,916,940.85	69,721,964.08
		2,119,104,945.05	2,236,290,786.87

11	Borrowing from ADB-LGIIP	2014	2013
	ADB Loan payble to treasury	3,551,530,832.49	3,551,530,832.49
		3,551,530,832.49	3,551,530,832.49

12	GOSL Grant -LGIIP	2014	2013
	GOSL Grant - Received	1,102,964,884.09	1,102,964,884.09
	Less:Grant Amortized(2014)	(506,908,897.82)	(342,440,346.14)
		596,055,986.27	760,524,537.95

13	Staff Grativity	2014	2013
	Provision B/F	1,782,690.29	1,443,968.00
	Provision for the year	565,917.08	338,722.29
		2,348,607.37	1,782,690.29
	Paid during the year	-	-
		2,348,607.37	1,782,690.29

14	Govt.Assistance(Capital)-LGIIP	2014	2013
	Assets for LGIIP - Cost	7,500,110.62	7,500,110.62
	Less: Amortization of Gov. Assistance	(1,424,879.55)	(1,424,879.55)
		6,075,231.07	6,075,231.07

15 Interest payables to General Treasury

	2014	2013
Interest payables on UDLIHP	117,095,176.89	187,095,177.09
Interest payables on PCDP	-	-
Interest payables on LGIIP	-	-
	117,095,176.89	187,095,177.09

16 Provisions & Accrude Expences

	2014	2013
Audit Fees	1,645,813.00	1,285,813.00
Office Rent	7,200,000.00	6,600,000.00
Accrude Expenses	197,331.92	94,626.00
	9,043,144.92	7,980,439.00

17 Received in Advance

	2014	2013
Advance - LLDF	2,146,294.51	1,426,709.72
Advance - UDLIHP	4,457,541.40	3,015,506.00
Advance - LGIIP	4,387,136.56	7,302,283.86
	10,990,972.47	11,744,499.58

18 Current tax Liability

	2014	2013
Balance as at the beginning of the Year	1,899,222.08	2,842,671.08
Add : Provision for theCurrent Year	1,300,000.00	1,800,000.00
	3,199,222.08	4,642,671.08
Less: Payment made during the Year For Year 2013/2014	(1,340,629.93)	(1,407,663.00)
Withholding Tax deducted	(1,280,876.65)	(1,335,786.00)
Balance as at the end the Year	577,715.50	1,899,222.08

19 Interest Income

	2014	2013
LLDF	54,386,062.03	51,154,999.68
UDLIHP	120,567,659.50	92,909,676.74
PCDP	5,105,948.50	7,430,732.43
LGIIP	142,681,703.28	147,407,845.45
NW & DP	870,068.60	917,266.98
	323,611,441.91	299,820,521.28

20 Interest Expenses

	2014	2013
LLDF	18,642,043.92	20,378,514.40
UDLIHP	100,096,493.06	106,288,717.05
PCDP	5,194,976.77	5,874,564.82
LGIIP	35,515,308.32	35,651,957.00
	159,448,822.07	168,193,753.27

21	**Other Income**	**2014**	**2013**
	Recived in Suspence		
	LLDF	-	-
	UDLIHP	-	-
	PCDP	-	-
	LGIIP	-	-
	Liquidated Damages Income		
	LLDF	-	-
	UDLIHP	-	
	PCDP	-	
	LGIIP	527,555.45	2,763,630.48
	Other Income		
	LLDF	142,760.61	4,783,325.10
	UDLIHP	-	-
	PCDP	-	-
	LGIIP	-	-
		670,316.06	7,546,955.58

22	Administrative Expences	2014	2013
	Staff Salaries	8,197,134.51	5,700,07.81
	C.O.L Allowance - LLDF	2,862,600.00	1,821,600.00
	Staff bonus	804,375.00	240,416.00
	Allowance For Chairman.	475,590.00	475,590.00
	Incentive- UDLIHP	489,324.00	72,000.00
	Board of Commissioner's Travelling	163,380.00	348,080.00
	Allowance For.B.Coms	722,400.00	672,600.00
	E.P.F.	1,267,967.46	894,566.32
	E.T.F.	316,991.86	223,641.32
	Gratuity expenses	565,917.08	338,722.29
	Overtime & Holly day Pay	224,912.84	168,330.82
	Staff Welfare	236,869.32	148,497.00
	Meeting Expenses	94,849.10	61,938.00
	Audit Expenses	360,000.00	360,000.00
	Postage & Telephone	405,998.39	213,058.28
	Stationery / Printing	573,538.19	300,156.74
	Vehicle Maintenance - 54/6233	270,607.00	54,400.00
	Fuel	405,668.43	228,227.00
	Electricity	656,739.65	490,308.16
	Security Charges	356,474.40	270,441.20
	Water Supply	52,025.50	38,363.00
	Cleaning service Charges	262,339.00	186,132.40
	Maintanance & Equipments	419,541.57	234,469.43
	Maintanance & Building	468,022.95	40,572.00
	Staff Training	376,716.00	969,459.92
	Computer Maintance	641,930.00	18,350.00
	Tax & Rates	701,110.00	701,110.00
	Office rent	200,000.00	-
	Awareness Program	82,899.06	-
	Equipment Depreciation	1,051,169.20	148,914.30
	Furniture and Fittings Depreciatuin	-	30,328.17
	Computer Hardware ,Software Depreciation	312,239.34	441,744.55
	LLDF Modernization - Assests Depreciation	799,500.00	579,096.48
	Legal Expenses	-	4,050.00
	Bank Charges	9,695.18	948.52
	Development Ass. Traveling	1,162,536.41	773,799.06
		25,991,061.44	17,249,939.09

23	Net Grant amortization	**2014**	**2013**
	Grant Amortized-Expenses(Income Statement Debit)	318,907,755.43	383,103,645.50
	Grant Amortized-Revenue(Income Statement Credit)	(123,805,252.34)	(132,940,992.32)
		195,102,503.09	250,162,653.18

24	Financial Income	**2014**	**2013**
	Interest on Treasury Bill		
	LLDF	870,127.75	1,145,557.04
	UDLIHP	2,648,651.17	4,740,259.50
	PCDP	-	-
	LGIIP	993,244.15	1,238,885.02
	Interest on Savings Deposits		
	LLDF	996,674.83	789,390.81
	UDLIHP	2,381,857.52	1,673,474.65
	PCDP	-	-
	LGIIP	3,945,923.01	2,100,961.79
	Interest on Fixed Deposits		
	LLDF	2,180,367.14	6,056,833.68
	UDLIHP	4,854,038.36	8,726,176.60
	PCDP	-	-
	LGIIP	95,818.47	349,764.34
		18,966,702.40	26,821,303.43

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 31st December 2014 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 2014 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 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 are to be utilized for disbursements to Local Authorities (LAs.) under component B of the project. Debit grant represent the grant disbursed to LAs. with the loan component . Debit grant treated as an expenditure is deferred and amortized in systematic way to the income statement throughout the years of interest received from the activity. Credit grant is also amortized in the same system. In this arrangement, the amalgamated before tax profit of LL&DF should not be fallen to less than 5% of the before tax and net amortization profit.

NON-PERFORMING LOAN

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

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.

RETIRNMENT BENEFIT OBLIGATIONS - GRATUITY

Acturial valuation of Retiring Gratuity Obligations as at 31st December 2014 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%
Retirnment 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 thres hold 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 31.12.2014

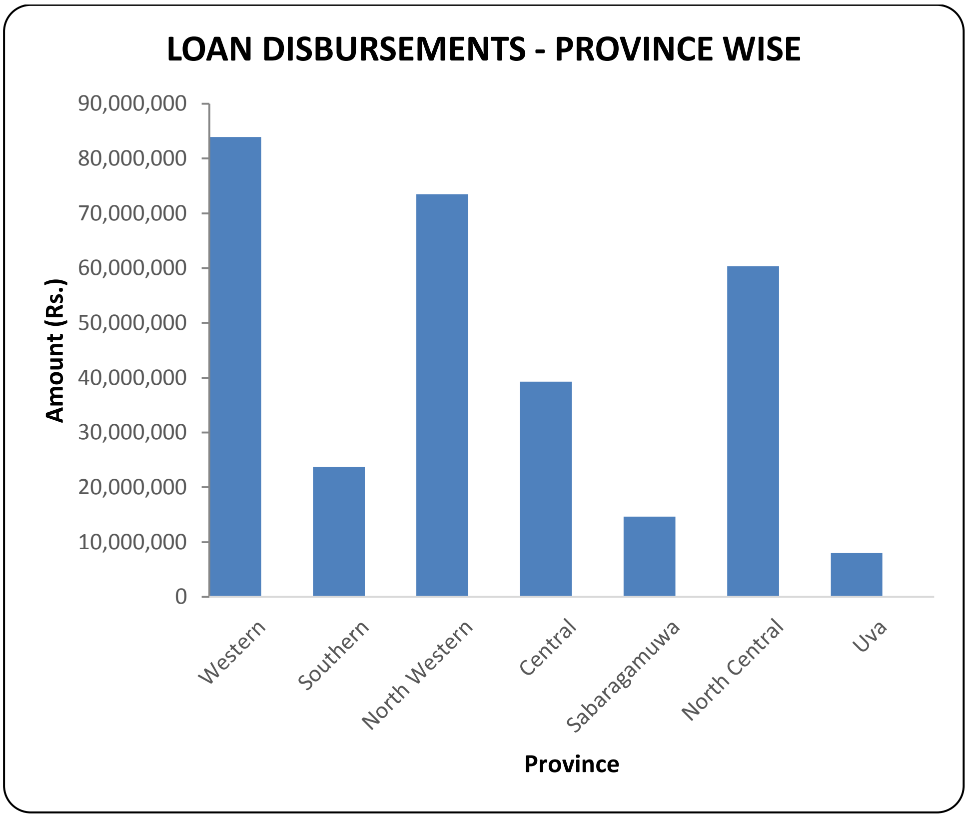
	Councils	Province	Amount	Construction weekly Fair & Economic Center	Water Supply Projects	Construction of Crematoria	Establishment of Road Maintenance Unit	Construction of Market Building	Tractors & Trailers	Dauble Cabe & Dimo Batta	Other Revenue Generating Projects
1	Devinuwara PS	SP	3,000,000				3,000,000				
2	Poojapitiya PS	CP	2,216,000				2,216,000				
3	Balapitiya PS	SP	2,520,000	2,520,000							
4	Madulla PS	UVA	8,000,000				8,000,000				
5	Galgamuwa PS	NWP	5,500,000			5,500,000					
6	Kahawatta PS	SAB	11,140,000					11,140,000			
7	Pasgoda PS	SP	2,775,000	2,775,000							
8	Talawakele Lindula UC	CP	5,600,000			5,600,000					
9	Kalutara PS	WP	6,100,000			6,100,000					
10	Matale PS	CP	6,000,000							6,000,000	
11	Dehiwala MC	WP	8,850,000				8,850,000				
12	Maharagama UC	WP	3,000,000						3,000,000		
13	Ambagamuwa PS	CP	13,627,730					13,627,730			
14	Kalawana PS	SAB	3,500,000					3,500,000			
15	Tumpane PS	CP	6,825,000					6,825,000			
16	Tamankaduwa PS	NCP	29,100,000					29,100,000			
17	Weligama UC	SP	3,900,000				3,900,000				
18	Minuwangoda PS	WP	26,000,000					26,000,000			
19	Kaduwela MC	WP	40,000,000	40,000,000							
20	Imaduwa PS	SP	2,280,000	2,280,000							
21	Wennappuwa PS	NWP	910,000								910,000

	Councils	Province	Amount	Construction weekly Fair & Economic Center	Water Supply Projects	Construction of Crematoria	Establishment of Road Maintenance Unit	Construction of Market Building	Tractors & Trailers	Dauble Cabe & Dimo Batta	Other Revenue Generating Projects
22	Pasbage Korale PS	CP	5,000,000		5,000,000						
23	Wanathavilluwa PS	NWP	20,000,000				20,000,000				
24	Kotapola PS	SP	9,200,000				9,200,000				
25	Anuradhapura MC	NCP	31,249,000				31,249,000				
26	Wariyapola PS	NWP	7,400,000			6,500,000					900,000
27	Narammala PS	NWP	4,700,000			4,700,000					
28	Udubaddawa PS	NWP	3,000,000			3,000,000					
29	Kurunegala PS (Diyabawa)	NWP	6,500,000			6,500,000					
30	Kurunegala PS (Maspotha)	NWP	6,500,000			6,500,000					
31	Rideegama PS	NWP	6,500,000			6,500,000					
32	Anamaduwa PS	NWP	6,250,000			6,250,000					
33	Chilaw UC	NWP	6,250,000			6,250,000					
	Total		303,392,730	47,575,000	5,000,000	63,400,000	86,415,000	90,192,730	3,000,000	6,000,000	1,810,000

Loan Disbursements - Province Wise

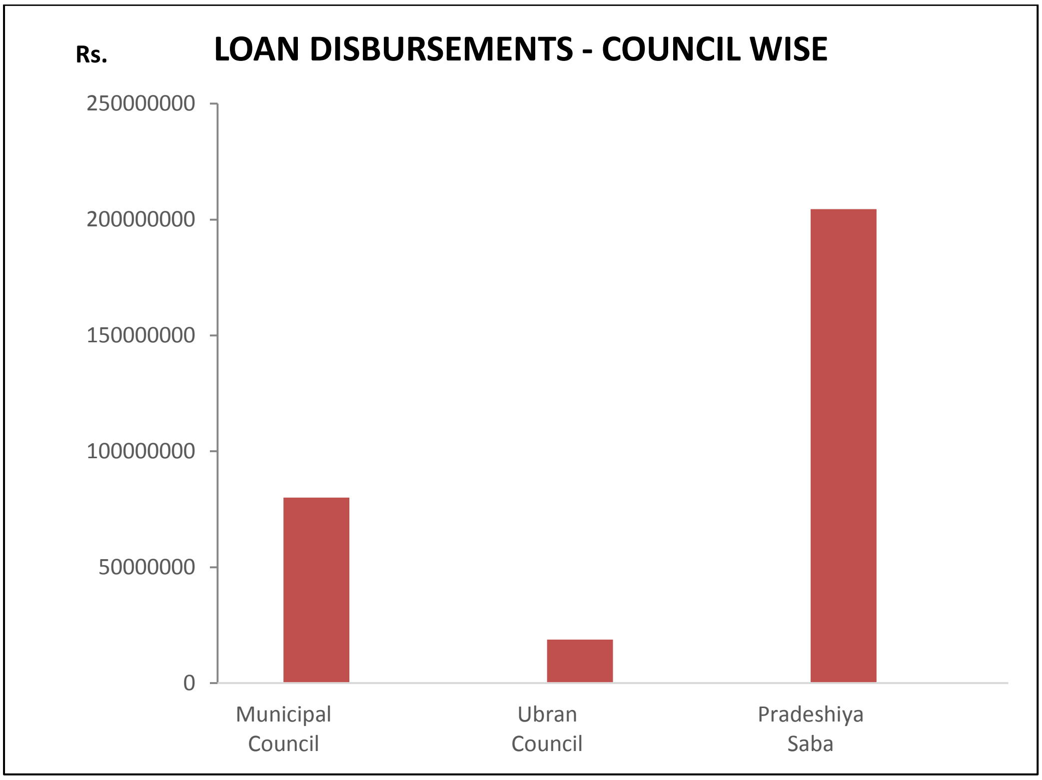
Year -2014

Province	**Amount (Rs.)**	**Percentage (%)**
Western	83,950,000	27
Southern	23,675,000	08
North Western	73,510,000	24
Central	39,268,730	13
Sabaragamuwa	14,640,000	05
North Central	60,349,000	20
Uva	8,000,000	03
Total	303,392,730	100



Loan Disbursement - Council Wise
Year 2014

Council	Amount Rs.	% of the Total
Municipal Councils	80,099,000	26
Urban Councils	18,750,000	06
Pradeshiya Sabas	204,543,730	67
Total	303,392,730	100



LOCAL LOAN AND DEVELOPMENT FUND
LOAN REPAYMENT TO THE TREASURY
2010 - 2014

Rs. Million

Year	Capital				Interest				Total
	LLDF	PCDP	UDLIHP	LGIIP	LLDF	PCDP	UDLIHP	LGIIP	
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
2014	22.5	3.80	90.8	-	18.6	5.2	100.0	35.0	275.9
Total	114.0	7.40	403.6	-	109.4	30.6	424.2	134.3	1223.6

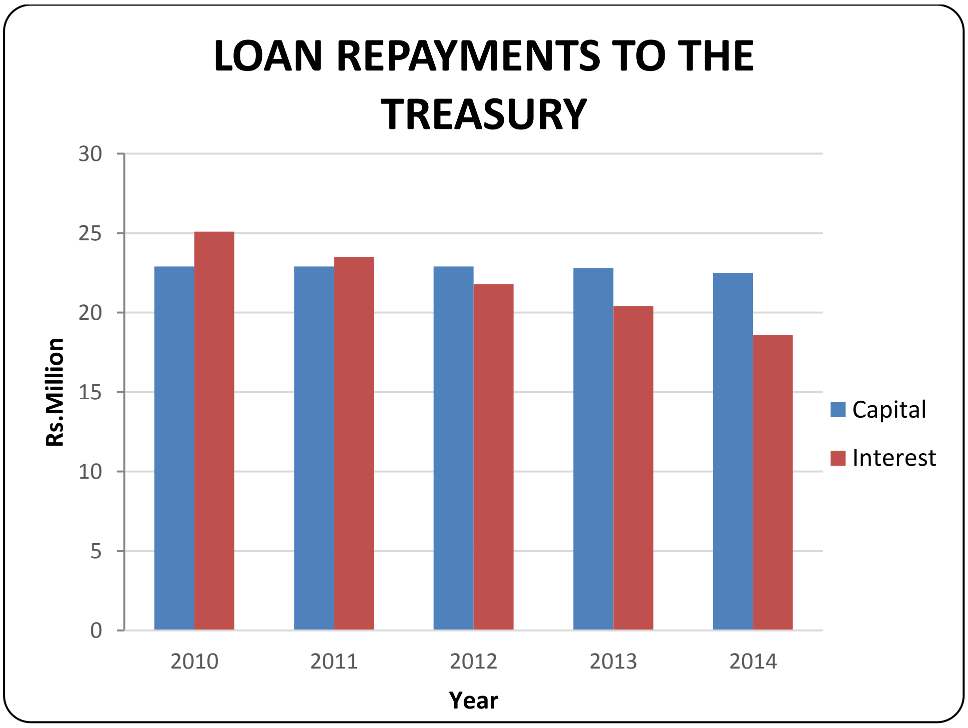
Loans issued under the Local Government Infrastructure Improvement Project (LGIIP). The LL&DF repay to the Treasury only the interest within the grace period.

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

Local Loan & Development Fund
Loan Repayments to The Treasury
(2010 – 2014)

Rs. 000

Year	Capital	Interest
2010	22.9	25.1
2011	22.9	23.5
2012	22.9	21.8
2013	22.8	20.4
2014	22.5	18.6

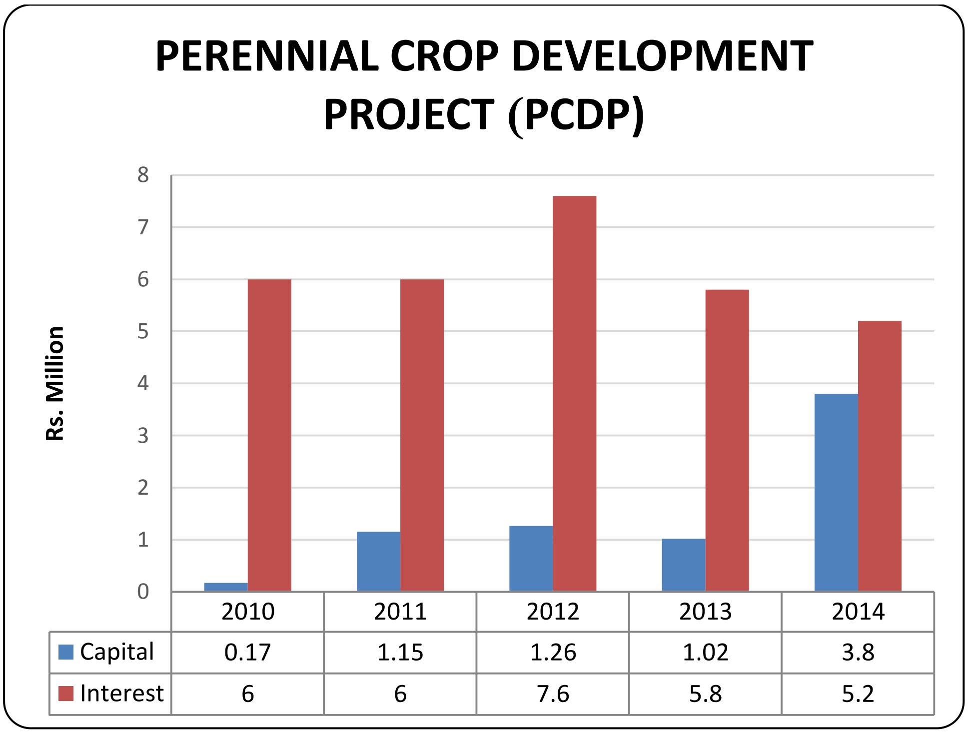


Loan Repayments to The Treasury (2010 – 2014)

Perennial Crop Development Project (PCDP)

Rs. Million

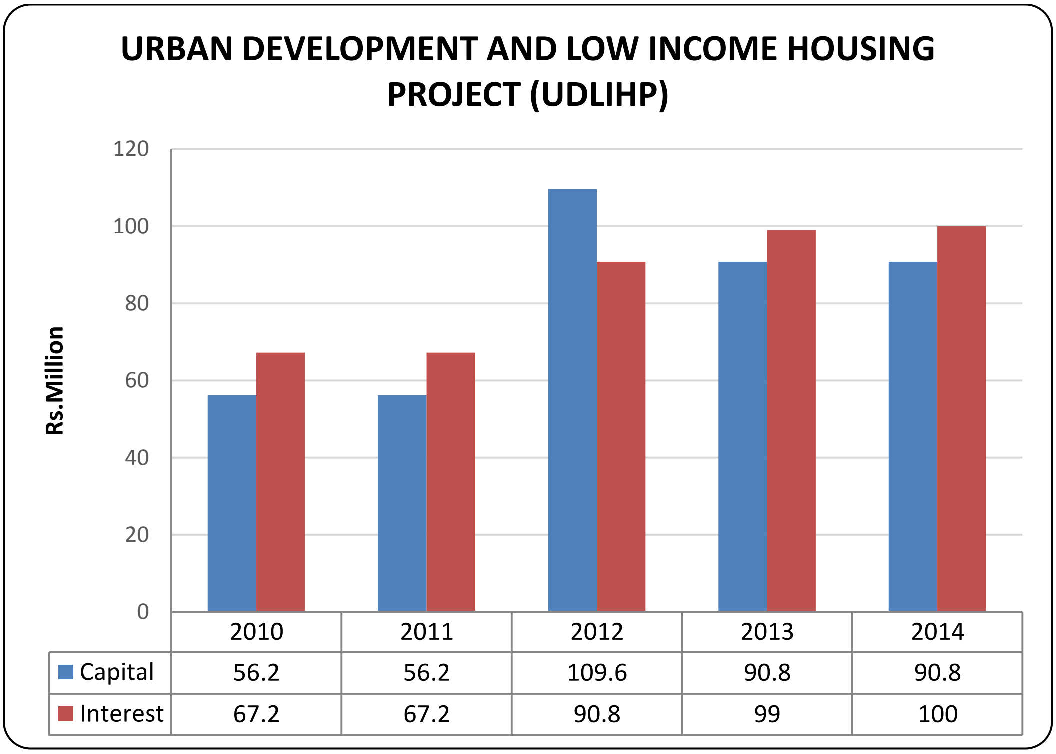
Year	Capital	Interest
2010	0.17	6
2011	1.15	6
2012	1.26	7.6
2013	1.02	5.8
2014	3.8	5.2



Loan Repayments to The Treasury
(2010 – 2014)
Urban Development and Low Income Housing Project (UDLIHP)

Rs. 000

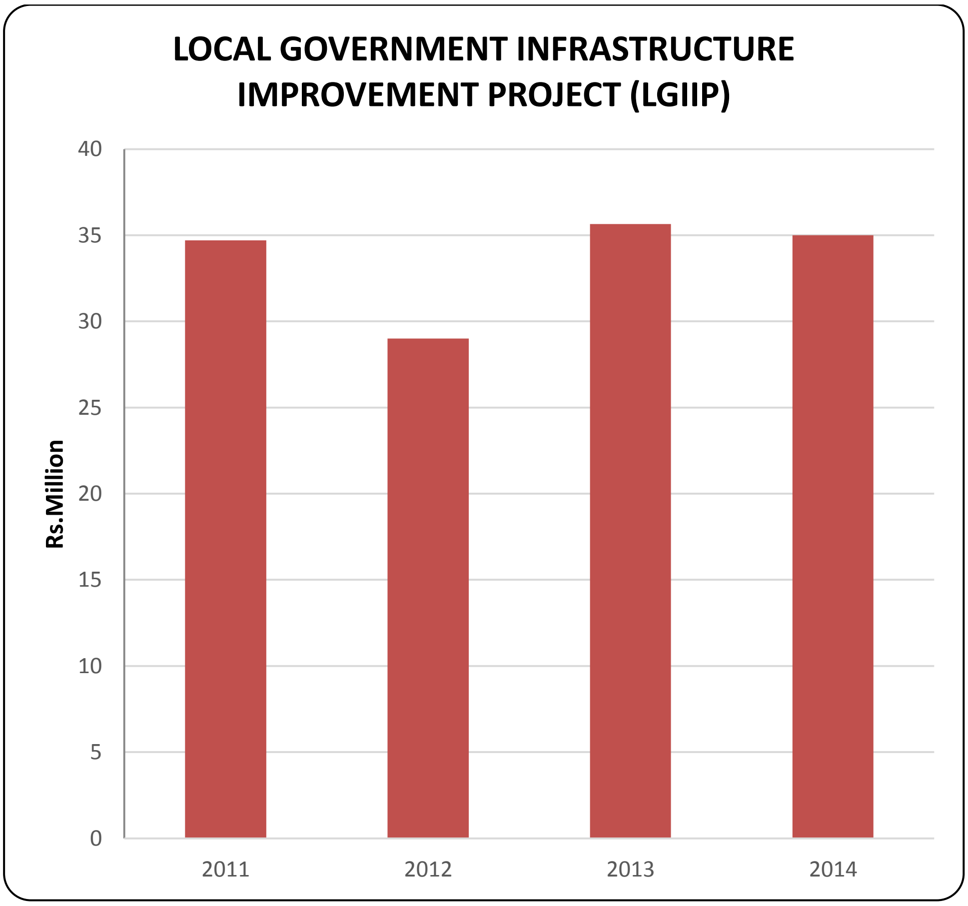
Year	Capital	Interest
2010	56.2	67.2
2011	56.2	67.2
2012	109.6	90.8
2013	90.8	99.0
2014	90.8	100.0



Loan Repayments to The Treasury
(2010 – 2014)
Local Government Infrastructure Improvement Project (LGIIP)

Rs. Million

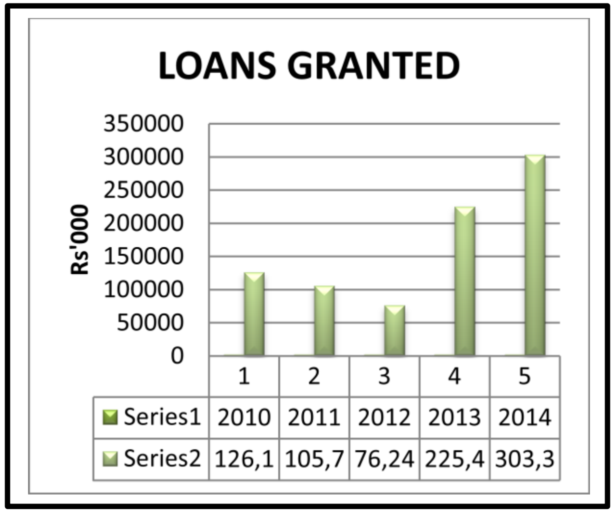
Year	Interest Payments to the Treasury
2011	34.70
2012	29.00
2013	35.65
2014	35.00

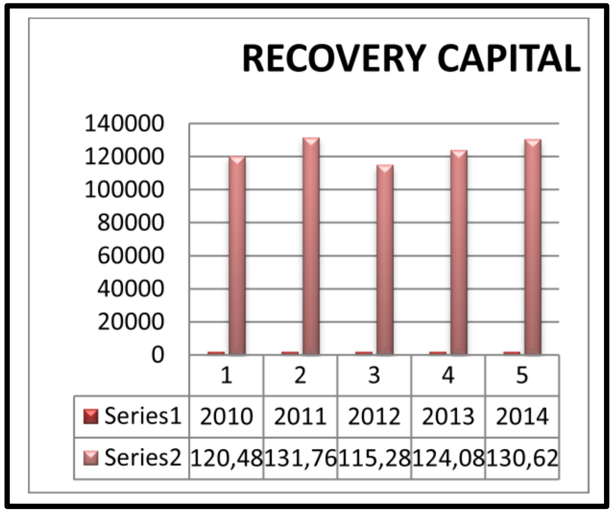


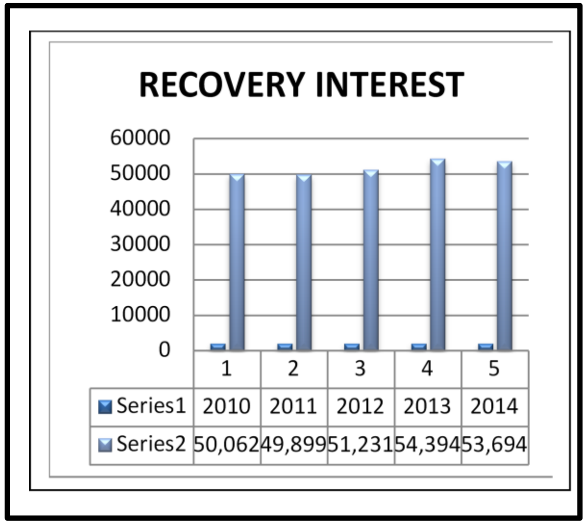
Local Loan & Development Fund
Activities 2010 - 2014

Rs. 000

Year	Loans Granted	Recovery Capital	Recovery Interest
2010	126,195	120,487	50,062
2011	105,707	131,766	49,899
2012	76,249	115,281	51,231
2013	225,479	124,086	54,394
2014	303,392	130,626	53,694







විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය
எனது இல.
My No. BAF/G/LLDF/1/14/1

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date 25 July 2018

30 JUL 2018

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 2014 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 2014 comprising the statement of financial position as at 31 December 2014 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.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 2014 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 Fund had not recognized the interest income on fixed deposits on accrual basis in the financial statements for the year under review.

(b) LKAS 16 - Property, Plant & Equipment

(i) Although the depreciation of an asset should begin when it is available for use as per paragraph 55 of the Standard, the Fund had depreciated its assets from the year of purchase contrary to the provisions in the Standard.

(ii) The gross carrying amount of Rs. 1,023,128 relating to fully depreciated assets had not been disclosed as a note to the financial statements in terms of paragraph 79 of the Standard.

30 JUL 2018

2.2.2 <u>Accounting Deficiencies</u>

The following observations are made.

(a) Since the Fund had not computed its interest income on fixed deposits on accrual basis, interest income of Rs. 9,551,435 for the year under review and the interest receivable as at 31 December 2014 had been understated by Rs. 24,966,196.

(b). The interest income on fixed deposits and treasury bills had been taken into financial statements on net basis disregarding the withholding tax of Rs. 1,280,877 and notional tax of Rs.492,161 charged at the time of crediting the interest. Accordingly, profit for the year under review had been understated by Rs.1,773,038.

(c). Depreciation for the year under review for computers and office equipment had not been computed and charged to the income statement. Hence, the profit for the year under review and the value of Property, Plant and Equipment (PPE) as at end of the year under review had been overstated by Rs.906,423.

(d). An amount of Rs.2,349,238 had been erroneously debited to PPE as addition to computer hardware & software in the year 2014. However, the details of credit entry made by the Fund thereon had not been presented to audit even up to the date of this report. Hence, the accuracy and reliability of the PPE shown in the statement of financial potion could not be ascertained in audit

(e). LLDF Modernization assets which were posted to General Ledger in year 2012 amounting to Rs.3,586,139 had been re-recognized as addition to the furniture and fittings in the financial statements for the year 2014. Further, staff training expense of

Rs.958,169 was also recognized as an asset under furniture & fittings. Hence, the value of total assets and depreciation for the year under review had been overstated by Rs.4,544,308 and Rs.1,020,841 respectively.

(f). Interest receivable on fixed deposits and treasury bills relating to the Urban Development Low Income Housing Project (UDLIHP) charged to the financial statements in the year 2012 amounting to Rs.1,216,741 and Rs.1,306,001 respectively had been received in the year 2013. However, this had been continuously brought forward to the financial statements as receivable.

(g). A sum of Rs.19,500,745 had been shown as cash balance under current assets as well as current liabilities in the statement of financial position as at 31 December 2014. Action had not been taken to identify and recover or settle these balances as at the end of the year under review.

(h) According to the loan schedule submitted to audit, interest receivable as at 31 December 2014 from Dambulla Municipal Council and Kandy Municipal Council were Rs.17,929,308 and Rs.21,948,185 respectively. However, these balances had not been brought to the financial statements for the year under review.

2.2.3 Going Concern of the Fund

According to the financial statements presented, the Fund is running at continuous losses since the year 2011 and it had resulted to significant deterioration in the value of net assets of the Fund. This event indicates a material uncertainty that may cast significant doubt on the Fund's ability to continue as a going concern unless there is a support from the General Treasury. Further, the financial statements of the Fund do not disclose this fact.

30 JUL 2018

2.2.4 Unexplained Differences

The following observations are made.

(a) A net difference of Rs. 700,805,504 was observed between the value of loans shown in the financial statements for the year under review and the corresponding records submitted to audit.

(b) A difference of Rs.1,996,692,218 was observed between the debtor balances shown in the statement of financial position as at 31 December 2014 and the debtor balances considered for impairment provision. The reasons for the difference had not been explained to audit.

(c) According to the confirmations received the total investments on treasury bills as at 31 December 2014 was Rs.70,454,440. However, it was shown in the financial statements as Rs.59,230,275. The reasons for the difference of Rs.11,224,165 were not made available for audit.

(d) According to the bank confirmation, the balance in the saving deposit as at 31 December 2014 was Rs.43,502,811. However, it was shown in the financial statements as Rs. 99,097,477. As such, the deposits in the savings account had been deferred by Rs.55,594,666.

(e) Although as per the information made available the interest payable to General Treasury as at 31 December 2014 was Rs.5,784,198, it was shown in the financial statements as Rs.117,095,177. Hence, an unexplained difference of Rs.111,310,979 was observed between these two amounts.

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

Board of Commissioners had granted the approval on 03 October 2014 to reduce the interest rate for loans to the Urban Development and Low Income Housing Project from 10 per cent to 6 per cent per annum. However, the Fund had not taken action accordingly to reschedule the loans valued at Rs.617,697,468 as at 31 December 2014.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Fund during the year under review had resulted in a pre-tax net loss of Rs.134 million as compared with the corresponding pre-tax net loss of Rs.246 million in the preceding year, thus showing an improvement of Rs.112 million or 84 per cent in the financial results.

Increase of net interest income by Rs. 32,535,852 or 24.7 per cent and decrease of impairment and amortization by Rs.48,219,301 and Rs.55,060,150 or 33.2 per cent and 22 per cent respectively as compared with corresponding figures of the preceding year were the main reasons attributed for this improvement.

The value addition of the Fund had also shown a negative value of Rs.115,324,361 in the year under review and it was a negative value of Rs.233,530,390 in the preceding year too, thus the value addition had increased by Rs.118,206,029 as compared with the previous year.

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 for the preceding year are given below.

Ratio	2014	2013
Net loss to total income (Percentage)	39.07	73.75
Current Asset Ratio (Number of times)	23.19	16.7

According to the above computations, net loss to income had significantly reduced by 34.68 per cent in the year under review.

4. Operating Review

4.1 Performance

According to Section 5 of the Local Loans and Development (amendment) Act No. 24 of 1993, the purpose for which loans may be granted by the Fund is for any work of public utility, which such authority may be authorized by law to undertake including the technical assistance. Accordingly, the Fund had provided loans under five categories and the outstanding balance as at the end of the year 2014 and preceding year are as follows.

Loan category	Outstanding Loan Balance	
	As at 31 December 2014	As at 31 December 2013
	Rs.	Rs.
Local Loans and Development Fund	816,654,556	638,603,693
Urban Development and Low Income Housing Project	1,711,357,137	1,761,718,573
Local Government Infrastructure Improvement Project	1,694,276,103	1,810,665,745

Perennial Crops Development Project	67,847,623	69,356,658
National Water Supply & Drainage Board	8,717,505	9,215,880
Total	**4,298,852,924**	**4,289,560,549**

The following observations are made in this connection.

(a). According to the above information the Fund had provided the financial facilities of more than 83 per cent and 79 per cent in the year 2013 and 2014 respectively under Urban Development and Low Income Housing and Local Government Infrastructure Improvement categories.

(c) Long outstanding loan balances as at 31 December 2014 was Rs. 2,335.23 million and it's comprised the capital arrears of Rs. 1,402.53 million and interest in arrears of Rs.932.70 million. Details are shown below.

Loan category	**Initial Loan**	**Capital in Arrears**	**Interest in Arrears**	**Total in Arrears**
	Rs. Million	**Rs. Million**	**Rs. Million**	**Rs. Million**
Local Government Infrastructure Improvement Project	492.12	484.99	135.77	620.76
Local Loans and Development Fund	32.25	31.73	2.43	34.16
Perennial Crops Development Project	12.00	12.00	17.93	29.93
Urban Development and Low Income Housing Project	919.45	873.81	776.57	1,650.38
	1,455.82	1,402.53	932.70	2,335.23

(i) The interest in arrears out of the total arrears as at 31 December 2014 in respect of LGIIP, PCDP and UDLIHP loans were 22 per cent, 60 per cent and 47 per cent respectively.

(ii) The Fund had failed to provide an age analysis in respect of above outstanding loan balances.

7

(iii) The loan amounting to Rs.12,000,000 given under Perennial Crops Development Project to the Dambulla Pradeshiya Sabha should be settled by 31 December 2010. However, no single installment had been recovered by the Fund even up to the end of the year under review.

4.2 Contract Administration

The following requirements in the Government Procurement Guidelines had not been followed by the Fund in respect of building renovation contract valued at Rs. 3,286,729 offered during the year under review.

(a) Guideline 2.8.1(a) - Even though no member should serve in both Procurement Committee and Technical Evaluation Committee, a person was appointed as a member to both committees.

(b) Guideline 5.2.1 - The bidding documents shall furnish all relevant information necessary for a prospective bidder to prepare the bidding documents. However, bid opening date and time were not provided in the bidding documents issued for this purpose.

(c) Guidelines 5.3.1 and 5.3.5 (a) - Standard bidding documents had not been used for calling the bids and necessity for registration in the Institute of Constructions Training and Development had not been mentioned in the bidding documents

(d) Guideline 6.1.4 - The Fund had not been kept a record pertaining to the issuance of the bid documents

(e) Guideline 8.13.3 - Variations and contingency provision generally should not exceed ten per cent (10%) of the estimated contract. However, a variation of 107 per cent was observed with regard to this contract.

4.3 Human Resources Management

According to the provisions in Finance Circular No. 124 dated 24 October 1997, the covering up duties of a vacant post should be limited to a period of 03 months. However, the Director or Chief Executive Officer and the Assistant Accountant of the Fund had been employed on acting basis since the year 2014.

30 JUL 2018

4.4 Management Activities

The following observations are made.

(a) According to the confirmation received from banks, the Fund had maintained a sum of Rs.43,502,810 in a bank account as at 31 December 2014 and the balance in this account as at 01 January 2014 was Rs. 158,587,835. Accordingly, the Fund had failed to manage its financial recourses in order to obtain optimum income through investing excess fund in proper investments sources.

(b) The Fund had amortized the grants received from the Government to the Fund and the grants given by the Fund by using a specified method. However, actions had not been taken to get approval from the Board of Commissioners for this method.

5 Accountability and Good Governance

5.1 Budgetary Control

Even though Fund had budgeted Rs.85 million for two activities including construction of office building, library and memorial halls and other revenue generating projects, those activities had not been even initiated during the year under review. Accordingly, Fund had utilized the funds allocated these projects to carry out other activities in the budget.

5.2 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. Since the Fund is making continuous losses since year 2011 and having a negative net assets of Rs,939,752,302 as at 31 December 2014, a separate internal audit division had not been implemented to cover the major risk areas of the Fund.

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.

30 JUL 2018

Area of control	Observation
(a) Accounting	The Fund to be taken fruitful actions to reduce unexplained differences in loan balances.
(b) Maintenance of Loan Files	Loans files are maintained without including required information
(c) Non-performing Loans	No stringent actions had been taken to recover the non-performing loan balances reported as at the end of the year under review.

W.P.C. Wickramaratne
Auditor General (Acting)

30 JUL 2013