LOCAL LOANS & DEVELOPMENT FUND

ANNUAL REPORT AND ACCOUNTS

2015

Ministry of Internal & Home Affairs and Provincial Councils & Local Government

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"

CONTENTS

LOCAL LOANS AND DVELOPMENT FUND
BOARD OF COMMISIONERS

(as at 31st December 2015)

Chairman		
01. Mr.H.T.K.Pathmasiri	Secretary, Ministry of Provincial Councils and Local Government	
Treasury Representative		
02. Mr.W.M.M.B.H.Gunarathne	Director, Department of State Accounts, Ministry of Finance & Planning	
Members		
03. Mr.H.M.B.P.Herath	Commissioner of Local Government	NWP
04. Mr.M.S.Premawanshe	Chief Secretary	CP
05. Mr.K.A.Thilakarathne	Chief Secretary	NCP
06.Mrs. S.J.M.H.C.Samarakoon	Commissioner of Local Government	WP
07. Mr.Gamini Rajakaruna	Chief Secretary	Uva
08. Mr.H.P.Kularathne	Chief Secretary	Sab
09. Mr.D.M.S.Abeygunawardene	Chief Secretary	EP
10. Mr.A.Pathinathan	Chief Secretary	NP
11. Mr.R.C.De Soyza	Chief Secretary	SP
12. Mr.P.Rupasinghe	Hon. Minister's Nominee	
13. Mr.S.A.Abeysinghe	Hon. Minister's Nominee	

ANNUAL REPORT AND ACCOUNTS - 2015

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 thereafter.

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 Public Administration, Provincial Councils, Local Government and Democratic Governance.

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 Provincial Councils & Local Government

BANKERS : Bank of Ceylon

STAFF

The following staff was employed by the Fund, as at 31st December 2015.

Designation	**No of Employeed**
Chief Executive Officer	01
Deputy Director (Operation)	01
Assistant Accountant	01
Development Officer's	17
Management Assistant	06
Driver	01
Office Aide	02
Total	**29**

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

OPERATIONAL AND FINANCIAL REVIEW

PERFORMANCE IN THE YEAR 2015

Rs.500 million was allocated in the institutional Budget in 2015 for the purpose of granting loans to the Local Authorities. During the year total Loans granted to 24 Local Authorities were Rs.292 million. Performance is considered as good as its average of 58%. 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 - 2015

	Category	Interest Rate	Amount (Rs.)	No of Projects
1	Establishment of Road Maintenance Unit	9.0%	47,498,400	06
2	Construction of Crematoria	6.5%	18,605,000	07
3	Construction of Market Buildings	9.0%	220,975,270	08
4	Improvement of Weekly Fairs	6.5%	2,500,000	01
5	Other Revenue Generation Projects	9.0%	3,011,000	02
	Total		**292,589,670**	**24**

INCOME

The fund has earned a Gross Income of Rs.126 million on operations (Including ADB funded projects). Further Rs.21.9 million has been earned by investing revolving funds, in State Banks. Net surplus of Rs.9.6 million has been earned after making operational expensesand amortization of Rs.89 million (grant component) to LA's under LGIIP project. Further the imparement for loans and receivales for the year 2015 is Rs.26 million. Surplus before tax is Rs.5.1 million.

Interest Income, Investment Income and Interest Payment to the Treasury during the year 2015 (Project Wise)

(Rs.Million)

	LLDF	PCDP	UDLIHP	LGIIP	Total
Interest Income	81.3	4.9	71.2	121.4	278.8
Interest Payment to the Treasury	16.9	4.9	95.3	35.5	152.6

Investment Income - Year 2015

(Rs.Million)

Catogary	LLDF	UDLIHP	LGIIP	Total
Treasury Bills	0.9	2.3	0.8	4.0
Fixed Deposits	11.3	0.1	0.09	11.49
Fund Management Account	0.7	0.8	1.1	2.6
REPO Investment	0.7	1.1	1.5	3.3
Total	13.6	4.3	3.49	21.39

Net Income from last 05 years – 2011 -2015

(Rs.Million)

Year	Net Income Before Tax (Rs.Million)
2011	(47.0)
2012	(335.4)
2013	(246.4)
2014	(134.1)
2015	5.1

REPAYMENT TO THE TREASURY

During the year Capital repayment to the Treasury was Rs.22.2 million. and the interest payment to the Treasury was Rs.16.9 million for loans obtained under LL&DF and Rs.90.8 million has been paid to the Treasury as capital and Rs.95.3 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.1.6 million has been paid to the Treasury as capital and Rs.4.9 million has been paid as interest.

(Rs.Million)

PROJECT	**CAPITAL REPAYMENT**	**INTEREST PAYMENTS**	**TOTAL**
LLDF	22.2	16.9	39.1
PCDP	1.6	4.9	6.5
UDLIHP	90.8	95.3	186.1
LGIIP	-	35.5	35.5
Total	114.6	152.6	267.2

RECOVERIES

Rs.126.6 million and Rs.75.6 million was recovered being capital and interest due from loans granted by LL&DF own Operations. Further Rs.94.7 million and Rs.69.4 million recovered, being capital and interest on ADB Loan No.1632.SRI (SF). Rs.3.8 million and Rs.4.9 million was recovered under PCDP as capital and interest during the year. Further Rs.110.2 million and Rs.104.4 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**

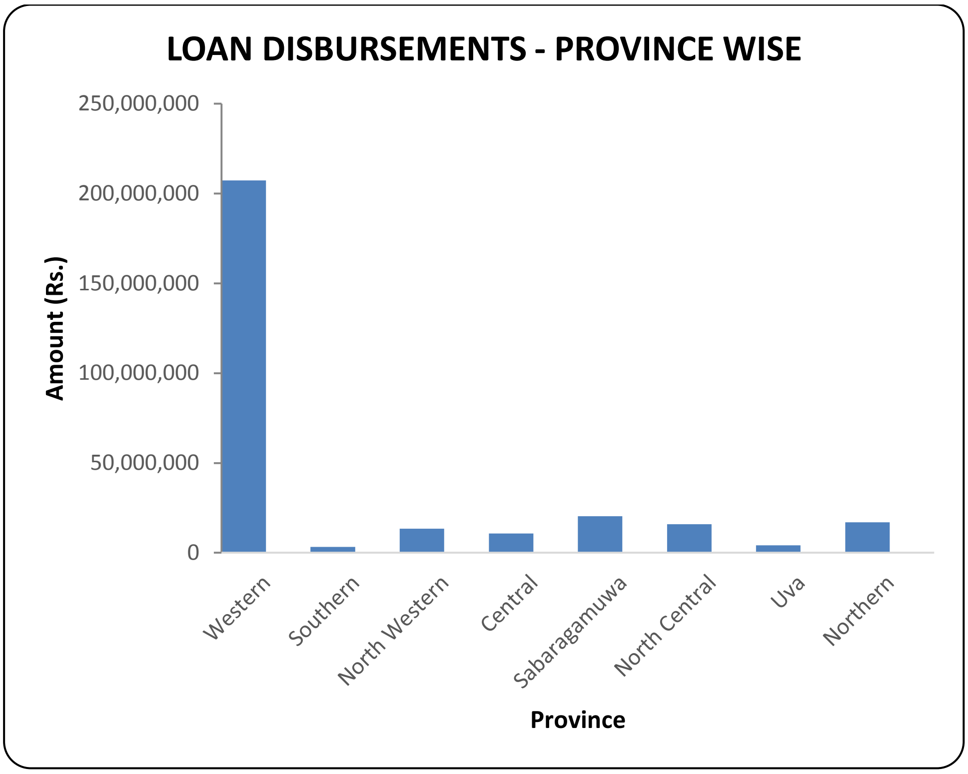
LOCAL LOANS AND DEVELOPMENT FUND
LOAN RELEASED AS AT 31.12.2015

	Councils	Province	Amount	Construction weekly Fair & Economic Center	Construction of Crematoria	Establishment of Road Maintenance Unit	Construction of Market Building & Shopping Complex	Other Revenue Generating Projects
1	Kahawatta PS	SAB	6,200,000				6,200,000	
2	Kotte MC	WP	189,000,000				189,000,000	
3	Mantai West PS	EP	6,720,000			6,720,000		
4	Peliyagoda UC	WP	9,080,000			9,080,000		
5	Galigamuwa PS	SAB	8,938,400			8,938,400		
6	Thirukkovil PS	EP	944,000					944,000.00
7	Bibila PS	UVA	848,000				848,000	
8	Kalawana PS	SAB	900,000				900,000	
9	Talawakele Lindula UC	CP	925,000		925,000			
10	Yatiyantota PS	SAB	1,900,000		1,900,000			
11	Galgamuwa PS	NWP	3,500,000		3,500,000			
12	Manmunai South West PS	EP	9,400,000			9,400,000		
13	Ambagamuwa PS	CP	6,372,270				6,372,270	
14	Nattandiya PS	NWP	10,000,000			10,000,000		
15	Thamankaduwa PS	NCP	16,000,000				16,000,000	
16	Mahara PS	WP	2,700,000		2,700,000			
17	Dehiowita PS	SAB	2,500,000	2,500,000				
18	Thumpane PS	CP	1,175,000				1,175,000	
19	Pathahewaheta PS	CP	2,330,000		2,330,000			
20	Bibila PS	UVA	480,000				480,000	
21	Kotapola PS	SP	3,360,000			3,360,000		
22	Mahara PS	WP	4,470,000		4,470,000			
23	Mahiyangana PS	UVA	2,780,000		2,780,000			
24	Attanagalla PS	WP	2,067,000					2,067,000.00
	Total		292,589,670	2,500,000	18,605,000	47,498,400	220,975,270	3,011,000.00

LOAN DISBURSEMENTS - PROVINCE WISE

YEAR -2015

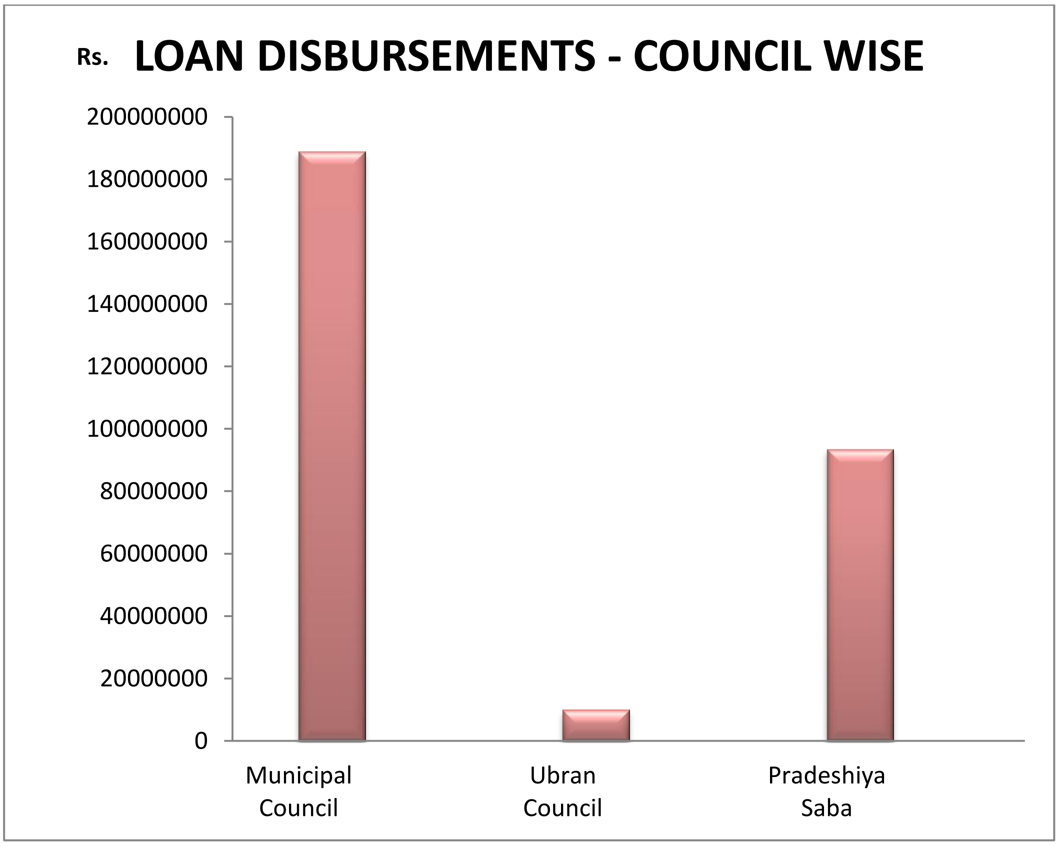
Province	**Amount (Rs.)**	**Percentage (%)**
Western	207,317,000	71
Southern	3,360,000	01
North Western	13,500,000	05
Central	10,802,270	04
Sabaragamuwa	20,438,400	07
North Central	16,000,000.00	05
Uva	4,108,000	01
Northern	17,064,000	06
Total	292,589,670	100



LOAN DISBURSEMENT FOR THE PERIOD

YEAR 2015 - COUNCIL WISE

Council	Amount Rs.	% of the Total
Municipal Councils	189,000,000	65
Urban Councils	10,005,000	03
Pradeshiya Sabas	93,584,670	32
Total	292,589,670	100



LOCAL LOAN AND DEVELOPMENT FUND
LOAN REPAYMENT TO THE TREASURY
2011 - 2015

Rs. Million

Year	Capital				Interest				Total
	LLDF	PCDP	UDLIHP	LGIIP	LLDF	PCDP	UDLIHP	LGIIP	
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
2015	22.2	1.60	90.8	-	16.9	4.9	95.3	35.5	267.2
Total	113.3	8.83	438.2	-	101.2	29.5	452.3	169.8	1313.1

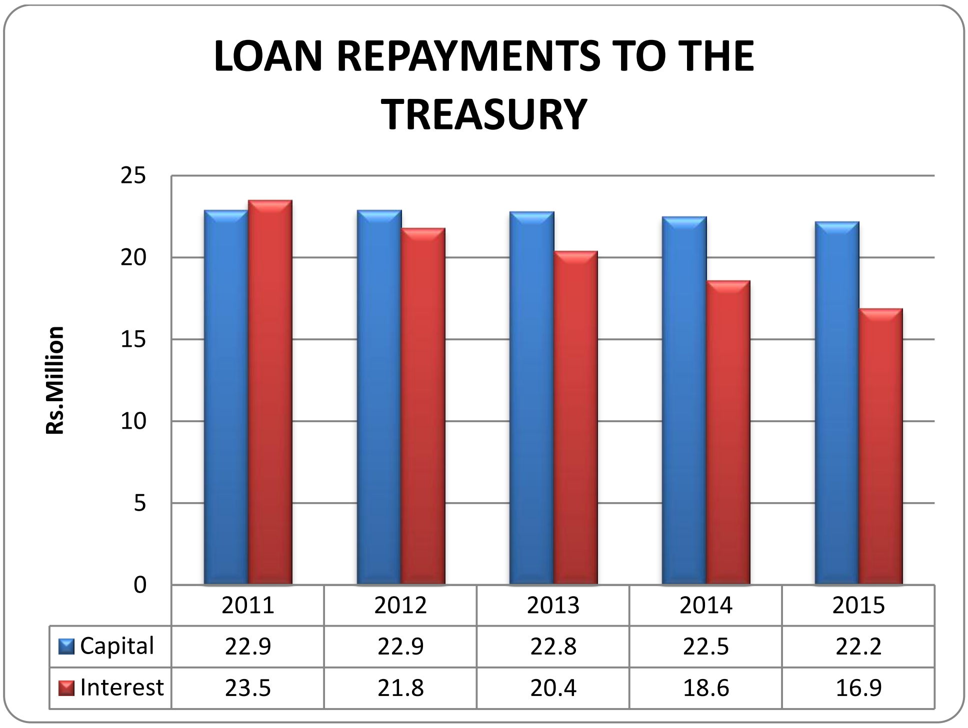
Loans issued under the Local Government Infrastructure Improvement Project (LGIIP). The LL&DF repay to the Treasury only the interest within the grace period.

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
2011 – 2015

Rs. 000

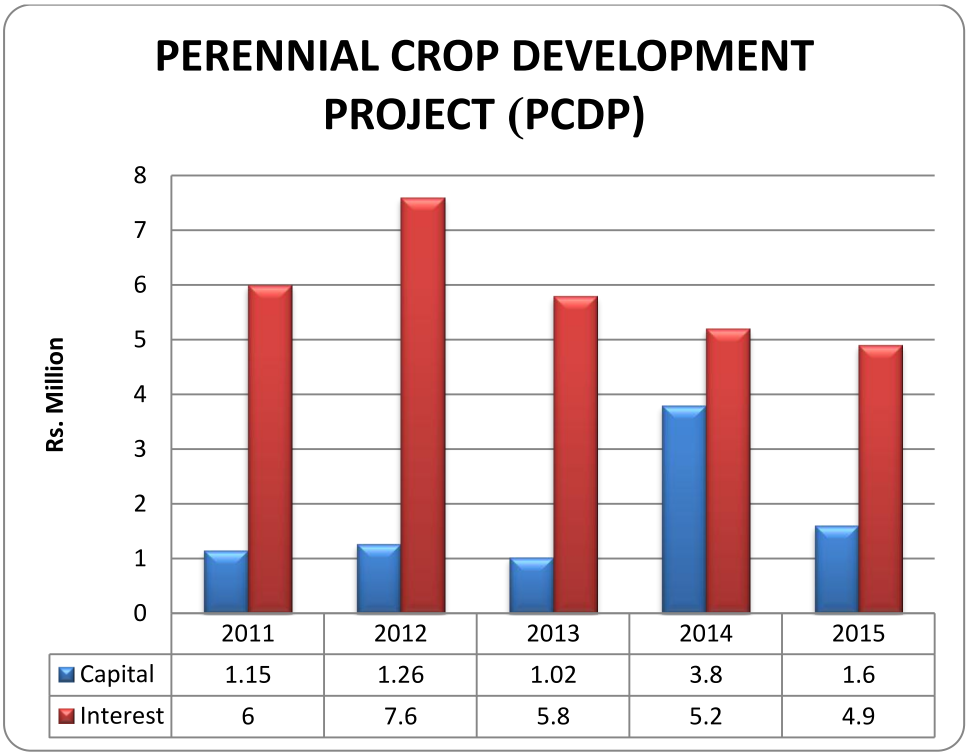
Year	Capital	Interest
2011	22.9	23.5
2012	22.9	21.8
2013	22.8	20.4
2014	22.5	18.6
2015	22.2	16.9



LOAN REPAYMENTS TO THE TREASURY
2011 – 2015
PERENNIAL CROP DEVELOPMENT PROJECT (PCDP)

Rs. Million

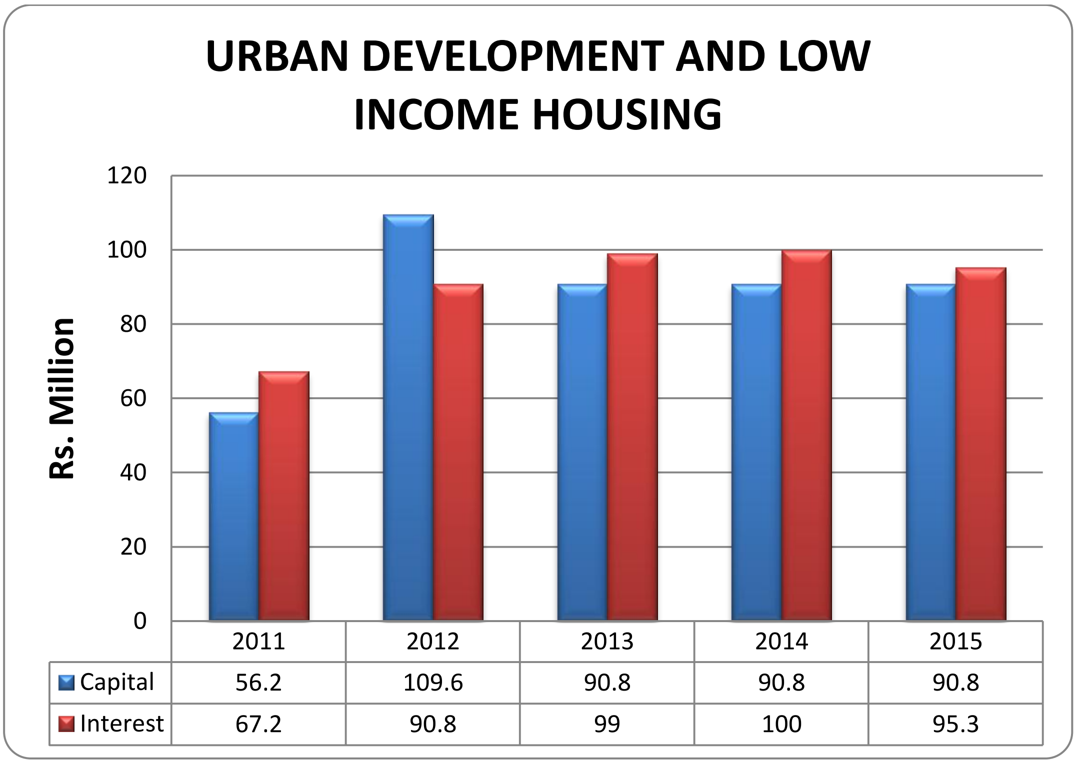
Year	Capital	Interest
2011	1.15	6
2012	1.26	7.6
2013	1.02	5.8
2014	3.8	5.2
2015	1.6	4.9



LOAN REPAYMENTS TO THE TREASURY
2011 – 2015
URBAN DEVELOPMENT AND LOW INCOME HOUSING PROJECT (UDLIHP)

Rs. 000

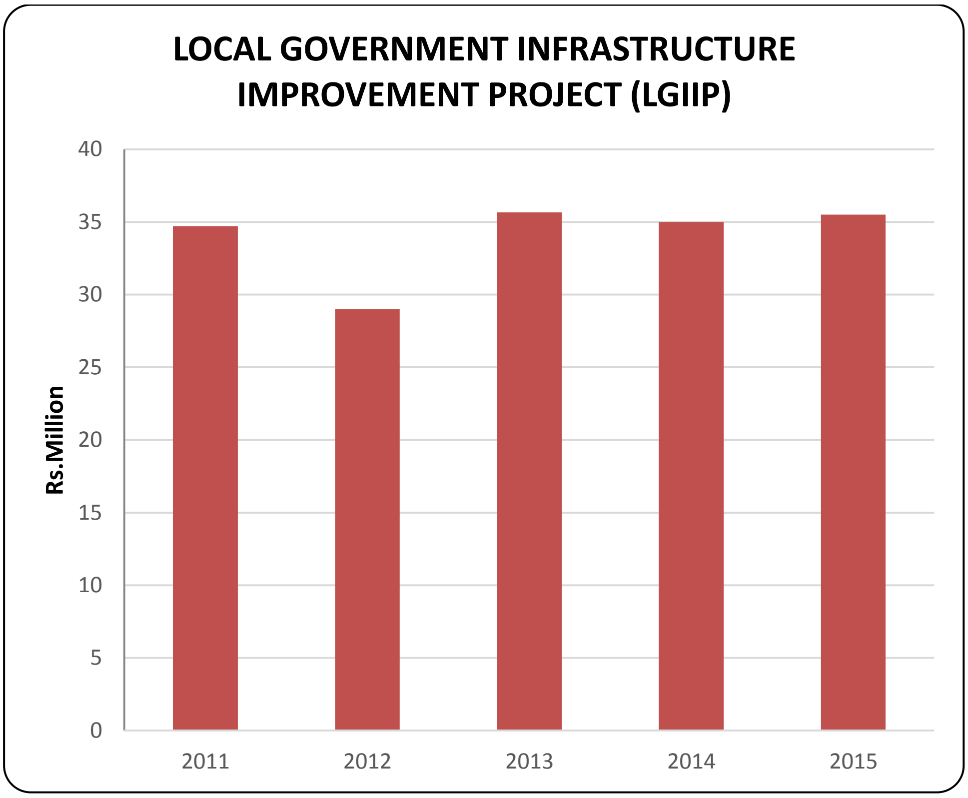
Year	Capital	Interest
2011	56.2	67.2
2012	109.6	90.8
2013	90.8	99.0
2014	90.8	100.0
2015	90.8	95.3



LOAN REPAYMENTS TO THE TREASURY
2011 – 2015
LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT PROJECT (LGIIP)

Rs. Million

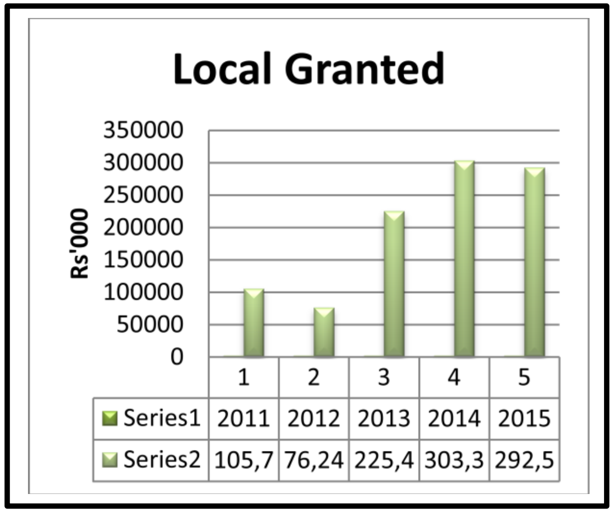
Year	Capital	Interest
2011	-	34.70
2012	-	29.00
2013	-	35.65
2014	-	35.00
2015	-	35.50

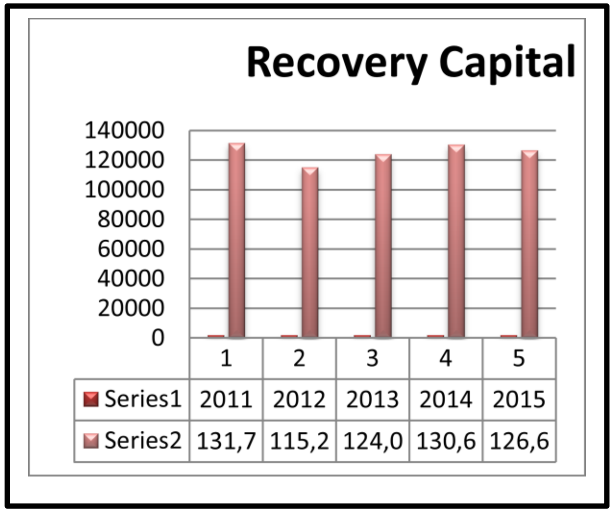


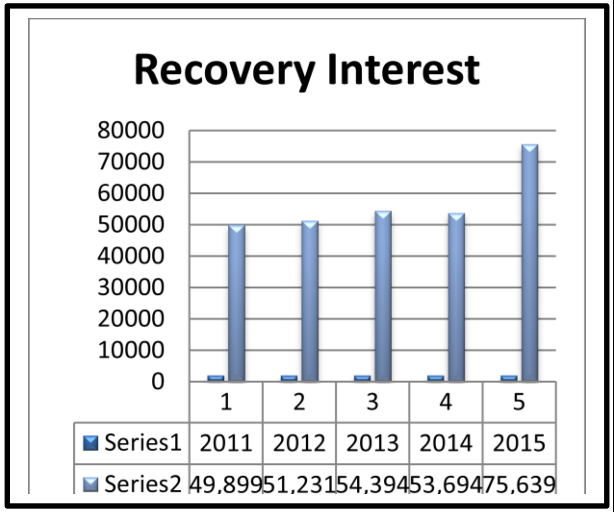
Local Loan & Development Fund
Activities 2011 - 2015

Rs. 000

Year	Loans Granted	Recovery Capital	Recovery Interest
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
2015	292,589	126,671	75,639







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
2011	71.7	102.4
2012	76.6	93.5
2013	82.4	90.3
2014	89.6	80.0
2015	94.7	69.4

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 - 2015

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

Instructions has been given by the Auditor General's Department for preparation of Financial Statements for the year 2012 and 2013 in accordance with the Sri Lanka Financial Reporting Standards (SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka. Accordingly quortations has been called by the reputed institutions and the Committee accepted lowest bidder (Ernst & Young).

(02) POST OF INTERNAL AUDITOR

Internal Audit function of Local Loans and Development Fund is doing by the Ministry Internal Audit Division. The Audit and Management Committee proposed to recruits an Internal Auditor as Local Loans and Development Fund is a Financial Institution.

(03) CORPORATE PLAN AND ACTION PLAN

An instruction has been given to update 2015 – 2020 Corporate Plan of the Institute.

(04) SOFTWARE FOR LOAN AND FINANCIAL MANAGEMENT

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

COMMITTEE MEMBERS - YEAR 2015

Mr.W.M.P.G.Wickramasinghe	Addi. Sec. (Provincial Councils), MPA,PC&DG	Chairman
Mr.W.M.M.B.H.Gunarathne	Treasury Representative	Member
Mr.S.A.N.R.Subasinghe	Chief Executive Officer, LLDF	Member
Ms.R.M.Dharmalatha	Internal Auditor, MPCLG	Member
Ms.E.A.N.P.Edirisinghe	Auditor General's Dept.	Observer

FINANCIAL STATEMENTS AND INFORMATION

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. } WNP2/CB/H/LLDF/FA/2015 මබේ අංකය / உமது இல. / Your No. } දිනය / திகதி / Date } 21 September 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 2015 in terms of Section 14 (2) (c) of the Finance Act, No.38 of 1971.

The audit of financial statements of the Local Loans and Development Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971. My comments and observations which I consider should be published with the annual report of the Fund in terms of Section 14 (2) (c) of the Finance Act, appear in this report. A detailed Report in terms of Section 13 (7) (a) of the Finance Act, was furnished to the Chairman of the Fund on 24 April 2018.

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.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
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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 consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). 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 judgements, including the assessment of the risks of material misstatements 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 financial statements. Sub-sections (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 the extent of the audit.

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

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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 2016 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 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the financial statements should be furnished to the Auditor General within 60 days from the close of year of accounts. Nevertheless, the financial statements for the year 2015 had been furnished on 28 February 2017, after a delay of one year.

Even though the financial statements for the year under review had been signed by the Chairman, Executive Officer and a member of the Director Board, the assurance of management's responsibly had not been included in pursuance of Public Enterprises Circular No.PED/45 dated 02 October 2007 .

2.2.2 Maintenance of Accounting Records

The Funds had not properly maintained its accounting records. Further, all the transaction required to be brought to account had not been included in the ledger accounts while ledger accounts had not been balanced at the end of the year. Therefore, it was not possible to establish the accuracy of the balances included in the financial statements through the ledger accounts in audit and the Statement of Financial Position as at 31 December of the year under review had been balanced by including a sum of Rs.22,063,699 as doubtful receipts under the current liabilities.

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Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 01

(i) A statement of changes in equity had not been furnished in terms of Paragraph 10 of the Standard.

(ii) As operations of the fund similar to the operations of a financial institution, assets/ liabilities should be classified in order of liquidity as stated in terms of the paragraph 60. Nevertheless, attention had not been drawn thereon in the preparation of financial statements.

(iii) In terms of Paragraph 61 of the Standard, the items expected to be recovered or settled should be disclosed in the financial statements as the period not more than 12 months and the period of more than 12 months after the reporting period, whereas action had not been taken according to the standard in respect of staff debtors, other debtors and the loans obtained from the Treasury.

(iv) In terms of Paragraph 117 (b) of the Standard, a summary of significant accounting policies used for understanding the financial statements should be disclosed. Nevertheless, accounting policies relating to the financial assets and taxation had not been disclosed and comprehensive details had not been made available by the accounting policy disclosed for the Property, Plant and Equipment.

(b) Sri Lanka Accounting Standard 12

Major components of tax expenses had not been separately recognized and disclosed in terms of Paragraph 79 of the Standard.

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(c) Sri Lanka Accounting Standard 16

(i) In terms of Paragraph 55 of the Standard, although depreciation of an asset begins when it is available for use, without being complied with the above matter, it had been stated that the assets would not be depreciated in the year of purchase.

(ii) Although useful lives or depreciation rates used for all the classes of assets should be disclosed in terms of Sections 73 (c) of the Standard, depreciation method, depreciation rates or useful lives of the computer, software and modernization assets had not been disclosed in the financial statements.

(d) Sri Lanka Accounting Standard 19

In terms of Paragraphs 140(a), 141 (a), (b), (c) and (d) of the Standard, although the net benefit liability (asset), current service cost, interest income or expenditure, re-measurement of net benefit liability (asset) and the past service cost should be disclosed as a reconciliation from the opening balance to the closing balance, action had not been taken accordingly.

2.2.4 Accounting Policies

The following observations are made.

(a) Although a sum of Rs.2,224,380 had been written off as amortization of Government Grants during the year under review, the policy relevant to the amortization of Government Grants had not been disclosed in the financial statements.

(b) The office of the Local Loan and Development Fund had been maintained in a building belonging to the Food Commissioner's Department and the land with this building had been alienated to the Pakistan High Commissioner's Office upon a Government decision. However, a sum of Rs.4,511,406 spent by the

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Fund for the renovation of the above building for which there was no legal ownership or temporary ownership had been capitalized, whereas no policy had been recognized for writing off the above expenditure.

2.2.5 Accounting Deficiencies

The following observations are made.

(a) A sum of Rs.1,482,905,606 had been granted to the Local Authorities as loans and grants as at 31 December 2015, whereas action had not been taken to recognize the value of the grants included in this balance and write off against the profit.

(b). As the value of 07 Laptops purchased at accost of Rs.1,150,331 during the year under review had been debited to the Computer Maintenance Account, the cost of Property, Plant and Equipment and the net profit of the year under review had been understated by that amount in the accounts.

(c). Accrued expenditure of Rs.144,082 as at 31 December 2015 had been understated in the account and loan interest income of Rs.57,965,835 relevant to the year under review had not been brought to account.

(d). As interest income of Rs.8,445,245 directly invested under the fixed deposits from the year 2012 up to December of the year under review had been omitted from the accounts, value of the fixed deposits had been understated by that amount while surplus and retained earnings of the year under review had been understated by Rs.1,932,324 and Rs.6,512,921 respectively .

2.2.6 Unexplained Differences

The following observations are made.

(a) According to the financial statements as at 31 December of the year under review, although the opening balance of the expenditure on furniture and fittings amounted to Rs.5,150,873, that balance was Rs. 606,563 according to the

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schedule made available to the Audit. Accordingly, a difference of Rs.4,544,310 was observed.

(b) According to the financial statements as at 31 December 2015, a difference of Rs.389,178,319 was observed between the debtors balances and receivable loan interest balances, and the balances as per the schedule, whereas action had not been taken to recognize the above different and carry out the necessary corrections.

(c) According to the financial statements as at 31 December of the year under review, balances of a bank current account and a savings account totalled Rs.180,963,215 and that balance amounted to Rs.179,588,931 according to the cash book and the balance confirmations. Accordingly, a difference of Rs.1,374,284 was observed, whereas action had not been taken to recognize the above different and correct the same.

2.2.7 Lack of Documentary Evidence for Audit

Since the evidence indicated against the following item of accounts had not been made available to Audit, those could not be satisfactorily examined or accepted in audit.

	Item of Account	Value Rs.	Audit Evidence not Furnished
(a)	Fixed Deposit Investments	24,640,898	Balance confirmations, Fixed deposit certificates
(b)	Allocation of office rent	7,200,000	Detailed Computations and schedules
(c)	Investment income receivable	2,522,742	
(d)	Interests on loans payable to the Treasury.	21,765,948	
(e)	Doubtful receipts	22,063,699	
(f)	Receipt of Advances	15,623,577	

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

Following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Treasury Circular No.842 dated 19 December 1978	Register of Fixed Assets had not been maintained in an updated manner by correctly including all the details relating to fixed assets.
(b) Treasury Circular No.IAI/2002/02 dated 28 November 2002.	A register had not been maintained on computers and computer accessories.

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 surplus of Rs.4,226,504 as compared with the corresponding surplus of Rs.135,412,981 in the preceding year, thus showing an improvement of Rs.139,639,484 in the financial results of the year under review as compared with the preceding year. The decrease in the net amortization relating to the Grants by Rs. 105,219,502 and expenditure written off as the loan impairment by Rs. 70,377,085 during the year under review had mainly attributed for the above improvement of the financial result.

In analyzing financial statements of the year under review and 3 preceding years, although a continuous deficit in the financial result was observed from the year 2012 to the year 2014, that deficit had decreased from Rs.337,504,858 to Rs.135,412,981 and it had turned out to be a surplus of Rs.4,226,504 during the year under review. However, when readjusting employees remuneration, tax paid to the Government and depreciations for the non-current assets to the financial result, a negative contribution was observed from the year 2012 to 2014. Nevertheless, it had decreased from Rs.106,622,894 to Rs.18,499,306. However, contribution of the year under review had become a positive value of Rs.53,215,095 .

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4. Operating Review

4.1 Performance

4.1.1 Planning

Although the Fund had prepared an Action Plan, it had not been prepared by including the Annual Budget (income, operational expenditure, expenditure on development, statement of financial position, cash flow statement) proposed investments, Annual Procurement Plan (expansion of major investment capacities, major procurements) Human Resources Development Plan, Loan Repayment Plan/ Loan Recovery Plan and the Internal Audit Plan, as stipulated in the Public Finance Circular No.01/2014 dated 17 February 2014.

4.1.2 Operations and Review

The following observations are made.

(a) The revenue of the Fund had comprised the balance remained after the payment of the capital amount of loans and a part of the interest recovered to the Treasury out of the loans granted to the Local Authorities by the Local Government Infrastructure Improvement Project (LGIIP), Urban Development Low Income Housing Project (UDLIHP) and Perennial Crops Development Project (PCDP) to develop the fixed assets of those institutions for strengthening the Local Authorities and the interest recovered from the loans given by the Fund to the Local Authorities. Hoverer, out of 38 loan balances valued at Rs.648,882,366 existed in the nonperformance loan list for more than a period of one year by the end of the year under review, only 13 loan balances valued at Rs.116,968,939 had been rescheduled during the year 2015, whereas an effective measure had not been taken to recover the balance of Rs.531,912,427.

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(b) Although the main source of income of the Fund is the interest earned from granting loans, no promotion porgramms had been implemented for the issue of new loans during the year under review and it was observed in audit that only 03 loans valued at Rs.27,800,000 had been approved by the Board of Commissioners.

(c) An analysis of the loans approved provincial wise in the preceding years and granted in the year under review is given below.

Province	Estimated Amount Rs.	Actual Amount Rs.	Progress %
Central	50,000,000	10,802,270	22
Eastern	40,000,000	7,664,000	19
North-central	50,000,000	16,000,000	32
Northern	70,000,000	9,400,000	13
Southern	60,000,000	3,360,000	6
North-western	120,000,000	13,500,000	11
Sabaragamuwa	20,000,000	20,438,400	102
Uwa	20,000,000	4,108,000	21
Western	70,000,000	207,317,000	296
Total	500,000,000	292,589,670	

In analyzing the grant of loans provincial wise, the progress of the provinces other than the Western Province and the Sabaragamuwa Province remained t less than 32 per cent.

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4.2 Management Activities

The following observations are made.

(a) The Board of Commissioners comprising 14 members including 9 Local Government Commissioners chaired by the Secretary to the Ministry of Provincial Council and Local Government had met only in four instances during the year under review. Since approving of loans and taking other management decisions are carried out by the Board of Commissioners, the inadequate contribution of the Board of Commissioners had adversely affected the performance of the Fund.

(b) In terms Section 03 of the Local Loan and Development Ordinance No.22 of 1916 as amended by the Local Loan and Development (Amendment) Act, No.24 of 1993, the Board of Commissioners shall have the powers to appoint the staff. Nevertheless, without the approval of the Board of Commissioners, the Secretary to the respective Ministry had appointed an officer in the Accountant Service to act/ discharge duties of the post of Director of the Fund. Further, contrary to the Sections 12:5:4 and 12:8 of Chapter VII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka and contrary to the Paragraph 5 of the Public Enterprises Circular No.PED/50 dated 28 July 2008 and Paragraph 3.7 of the Public Enterprises Circular No.PED 1/2015 dated 25 May 2015, sums totalling Rs.617,258 comprising transport allowance of Rs.270,000 and fuel allowance Rs.171,010 had been paid to the above officer.

5. Accountability and Good Governance

5.1 Internal Audit

An internal Auditor had not been appointed to the Fund and an adequate audit had not been carried out by the Line Ministry.

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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.

Area of systems and controls	Observation
(a) Accounting	(i) Transactions of the Fund had not been properly recorded and accounts books had not been correctly maintained.
	(ii) Accounting and operating activities had not been carried out by using the computer system purchased and installed by the Fund in the year 2012.
(b) Control of Loan Recovery	An adequate arrangement had not been made to recover the loan installments and the interest receivable to the Fund.

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

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

For the year ended 31.12.2015	**Note**	**2015** Rs. Cts.	**2014** Rs. Cts.
Revenue			
Interest Income	19	279,685,699.97	323,611,441.91
Interest Expenses	20	(152,715,453.30)	(159,448,822.07)
Net Interest Income		**126,970,246.67**	**164,162,619.84**
Other Income	21	441,966.01	670,316.06
Administrative Expences	22	(27,851,969.80)	(25,991,061.44)
Net Grant amortization	23	(89,883,001.70)	(195,102,503.09)
Operating Profit		**9,677,241.18**	**(56,260,628.63)**
Imparement for Loans and receivables		(26,441,969.00)	(96,819,054.65)
Financial Expenses		-	-
Financial Income	24	21,937,368.12	18,966,702.40
Profit Before Tax		**5,172,640.30**	**(134,112,980.88)**
Tax Expencess		(946,136.00)	(1,300,000.00)
Profit After Tax		**4,226,504.30**	**(135,412,980.88)**
Net Profit for the year		4,226,504.30	(135,412,980.88)
Retained Earnings At the Beginning of the year		(939,752,302.09)	(804,339,321.21)
Retained Earnings At the End of the year		**(935,525,797.79)**	**(939,752,302.09)**

Local Loans and Development Commissioners
(Local Loans and Development Fund)
Statement of Financial Position
As at 31st December 2015

As at 31st December 2015	Note	2015 Rs. Cts.	2014 Rs. Cts.
ASSETS			
Non Current Assets			
Property, Plant & Equipment	1	16,069,191.60	18,752,097.50
Investment in Fixed Deposit and Treasury Bills	2	127,296,453.58	296,085,567.43
Grant given to LA -LGIIP	3	1,234,281,467.99	1,527,466,141.02
Staff Debtors	4	5,059,368.52	4,132,682.51
Total Non Current Assets		**1,382,706,481.69**	**1,846,436,488.46**
Current Assets			
Debtors	5	3,231,889,975.71	3,350,479,316.58
Loan Interest Receivables	6	193,335,396.12	195,286,932.80
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	282,014,936.93	78,105,724.11
Total Current Assets		**3,729,303,848.01**	**3,646,134,567.12**
Total Assets		**5,112,010,329.70**	**5,492,571,055.58**
EQUITY & LIABILITIES			
Equity			
Retained Earnings	9	(935,525,787.79)	(939,752,302.09)
Total Equity		**(935,525,787.79)**	**(939,752,302.09)**

Liabilities			
Non Current Liabilities			
Borrowings from General Treasury	10	2,006,099,126.54	2,119,104,945.05
Borrowing from ADB-LGIIP	11	3,551,530,832.49	3,551,530,832.49
GOSL Grant -LGIIP	12	392,754,314.94	596,055,986.27
Provision for Gravity	13	2,915,417.20	2,348,607.37
Retention Payable to LA		-	-
Govt.Assistance(Capital)-LGIIP	14	5,275,731.07	6,075,231.07
Total Non Current Liabilities		**5,958,575,422.24**	**6,275,115,602.25**
Current Liabilities			
Interest payable to the General Treasury	15	21,765,947.75	117,095,176.89
Suspence Received		22,063,699.27	-
Provisions & Accrude Expenses	16	8,887,813.00	9,043,144.92
Recived in Advance	17	15,623,576.97	10,990,972.47
Current tax Liability	18	1,118,912.62	577,715.50
Current Liability to LGIIP (C. A/C op.)		19,500,745.64	19,500,745.64
Total Current Liabilities		**88,960,695.25**	**157,207,755.42**
Total Liabilities		**5,112,010,329.70**	**5,492,571,055.58**

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)

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

Local Loans and Development Fund
Statement of Cash Flows

For the year ended 31.12.2015	**2015**	**2014**
	Rs. Cts.	**Rs. Cts.**
Cash Flows From Operating Activities		
Net profit before taxation	(119,510,657.34)	(134,112,980.88)
Adjustment for		
Interest Paid	-	-
Interest Income	(21,937,368.12)	(18,966,702.40)
Depreciation	3,270,293.40	2,245,807.60
Provisions	-	-
Provision for gratuity	566,809.83	565,917.08
Adjustment to gratuity	-	-
Suspense Account	22,262,753.65	(199,054.38)
Operating Profit before Working Capital Changes	**(115,348,168.58)**	**(150,467,012.98)**
(Increase)/Decrease in Debtors & Receivables	155,741,641.21	86,483,415.70
(Increase)/Decrease in Grant given to LA LGIIP	293,184,673.03	318,907,755.43
Increase/(Decrease) in Other Receivables	-	-
Increase/(Decrease) in Advance Received	4,632,604.50	(753,527.11)
Increase/(Decrease) in Staff Debtors	(926,686.01)	(877,483.00)
Increase/(Decrease) in Interest Payble to General treasury	(95,329,229.14)	(70,000,000.20)
Increase/(Decrease) in Trade Creditors & Other Payables	(155,331.92)	1,062,705.92
Increase/(Decrease) in Borrowings	(113,005,818.51)	(117,185,841.82)
Cash generated from operation	**128,793,684.58**	**67,170,011.94**
Interest Paid to General Treasury	-	-
Interest Received	21,937,368.12	18,966,702.40
With Holding Tax Paid		

	(404,938.88)	(1,280,876.65)
Income Tax Paid	-	(1,340,629.93)
Net cash used in operating activities	**150,326,113.82**	**83,815,207.76**
Cash flow from investing activities		
Purchase of Property, Plant & Equipment	(587,387.50)	(18,148,926.40)
Sale proceed of disposal	-	-
Withdrawal Fixed Deposit	205,000,000.00	-
Treasury bill	(36,210,886.15)	(542,556.05)
Net Cash used in investing activities	**168,201,726.35**	**(18,691,482.45)**
Cash flow from financing activities		
Loan Obtained	(799,500.00)	-
Loan Repayment	(113,819,127.35)	(164,468,551.68)
Net cash from financing activities	(114,618,627.35)	(164,468,551.68)
Net decrease in cash and cash equivalents	**203,909,212.82**	**(99,644,826.37)**
Cash and cash equivalent beginning of the year (Note A)	97,606,469.75	197,251,296.12
Cash and cash equivalent end of the year (Note A)	**301,515,682.57**	**97,606,469.75**

NOTE A

Cash & Cash Equivalents	2015	2014
	Rs. Cts.	**Rs. Cts.**
Savings Deposits	484,004,042.15	99,097,476.70
Cash Balance at PMU	19,500,745.64	19,500,745.64
Cash at bank	(201,989,105.22)	(20,991,752.59)
Cash and Cash equivalent end of the year	**301,515,682.57**	**97,606,469.75**

LOCAL LOANS & DEVELOPMENT COMMISSIONERS
Local Loans and Development Fund

Notes to the Financial Statements

For the year ended 31.12.2015

1.Fixed Assets

Cost

Description	Cost as at 01.01.2015	Additions/ (Disposals)	Cost as at 31.12.2015
Office Equipment	2,243,681.66	113,787.50	2,357,469.16
Furniture and Fittings	5,150,872.62	473,600.00	5,624,472.62
Computer Hardware ,software & Office Equipment	6,895,602.00	-	6,895,602.00
LLDF Modernization - Assests	4,511,406.98	-	4,511,406.98
Motor Vehicle – Nissan X/TRAIL	7,995,000.00	-	7,995,000.00
Total	**26,796,563.26**	**587,387.50**	**27,383,950.76**

Accumulated Depreciation

Description	Balance as at 01.01.2015	Depreciation for the year	Balance as at 31.12.2015
Office Equipment	1,980,153.93	75,463.05	2,055,616.98
Furniture and Fittings	1,169,660.09	275,298.08	1,444,958.17
Computer Hardware ,software & Office Equipment	1,854,137.35	1,008,292.93	2,862,430.28
LLDF Modernization - Assests	2,241,014.39	312,239.34	2,553,253.73
Motor Vehicle – Nissan/XTRAIL	**799,500.00**	**1,599,000.00**	**2,398,500.00**
Total	**7,244,965.76**	**3,270,293.40**	**11,314,759.16**

Written Down Value	**19,551,597.50**		**16,069,191.60**

02	**Investment in Fixed Deposit**	**2015**	**2014**
	Fixed Deposits	31,855,292.05	236,855,292.05
	Treasury Bill	95,441,161.53	59,230,275.38
		127,296,453.58	**296,085,567.43**

03	**Grant given to LA -LGIIP**	**2015**	**2014**
	Grant given to LA's	2,841,795,121.45	2,841,795,121.45
	Less:Grant amortized 2015	(1,607,513,653.46)	(1,314,328,980.43)
		1,234,281,467.99	**1,527,466,141.02**

04	**Staff Debtors**	**2015**	**2014**
	Distress Loan	4,098,682.51	3,232,199.51
	Advance for Board of Commissioners	329,400.00	-
	Festival Advance	20,500.00	23,000.00
		5,059,368.52	**3,255,199.51**

05	**Debtors**	**2015**	**2014**
	LLDF(UC,MC,PS)	944,012,416.91	792,304,472.38
	UDLIHP	1,511,126,201.48	1,616,213,801.13
	LGIIP	1,482,905,605.75	1,619,525,855.00
	PCDP	66,198,530.41	67,847,622.91
	N.W.S.&D.B.	8,219,130.22	8,717,505.22
		4,012,461,884.77	**4,104,609,256.64**
	Less - Provision for imparement		
	Balance as at 01st Jan 2015	754,129,940.06	657,310,885.41
	Add - Provision for the year	26,441,969.00	96,819,054.65
	Balance as at 31st December 2015	**780,571,909.06**	**754,129,940.06**
		3,231,889,975.71	**3,350,479,316.58**

6	**Loan Interest Receivables**	**2015**	**2014**
	LLDF	23,917,564.30	24,350,084.30
	UDLIHP	92,611,890.63	95,143,335.83
	PCDP	4,680.00	-
	LGIIP	75,757,996.15	74,750,247.63
	Treasury Interest Receivable - LGIIP	-	-
	Liquidates damages Receivable – LGIIP	1,043,265.04	1,043,265.04
	Additional Interest Receivable - LGIIP	-	-
	NWS & DB	-	-
		193,335,396.12	**195,286,932.80**
	Non Performing Loans-LLDF	-	-
	Non Performing Loans-PCDP	-	-
	Non Performing Loans-UDLIHP	-	-
		193,335,396.12	**195,286,932.80**

7	Investment Income Receivable - UDLIHP	2015	2014
	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	2015	2014
	Savings Deposits	484,004,042.15	99,097,476.70
	Cash at bank	(201,989,105.22)	(20,991,752.59)
		282,014,936.93	78,105,724.11

9	Retained Earnings	2015	2014
	Balance at the beginning of year	(939,752,302.09)	(804,339,321.21)
	Loss for the year	4,226,514.30	(135,412,980.88)
		(935,525,787.79)	(939,752,302.09)

10	Borrowings from the Treasury	2015	2014
	LLDF	215,192,375.25	237,393,165.24
	UDLIHP	1,724,989,810.44	1,815,794,838.96
	PCDP	65,916,940.85	65,916,940.85
		2,006,099,126.54	2,119,104,945.05

11	Borrowing from ADB-LGIIP	2015	2014
	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	2015	2014
	GOSL Grant - Received	1,102,964,884.09	1,102,964,884.09
	Less:Grant Amortized(2015)	(710,210,569.15)	(506,908,897.82)
		392,754,314.94	596,055,986.27

13	Staff Grativity	2015	2014
	Provision B/F	2,348,607.37	1,782,690.29
	Provision for the year	566,809.83	565,917.08
		2,915,417.20	2,348,607.37
	Paid during the year	-	-
		2,915,417.20	2,348,607.37

14	Govt.Assistance(Capital)-LGIIP	2015	2014
	Assets for LGIIP - Cost	7,500,110.62	7,500,110.62
	Less: Amortization of Gov. Assistance	(2,224,379.55)	(1,424,879.55)
		5,275,731.07	6,075,231.07

15	Interest payables to General Treasury	2015	2014
	Interest payables on UDLIHP	21,765,947.75	117,095,176.89
	Interest payables on PCDP	-	-
	Interest payables on LGIIP	-	-
		21,765,947.75	117,095,176.89

16	Provisions & Accrude Expences	2015	2014
	Audit Fees	1,645,813.00	1,645,813.00
	Office Rent	7,200,000.00	7,200,000.00
	Accrude Expenses	42,000.00	197,331.92
		8,887,813.00	9,043,144.92

17	Received in Advance	2015	2014
	Advance - LLDF	2,662,767.18	2,146,294.51
	Advance - UDLIHP	5,849,410.20	4,457,541.40
	Advance - LGIIP	7,111,408.59	4,387,136.56
		15,623,576.97	10,990,972.47

18	Current tax Liability	2015	2014
	Balance as at the beginning of the Year	577,715.50	1,899,222.08
	Add : Provision for theCurrent Year	946,136.00	1,300,000.00
		1,523,851.50	3,199,222.08
	Less: Payment made during the Year		
	Paid for Year 2013/2014	-	(1,340,629.93)
	Paid for Year 2014/2015		
	Withholding Tax deducted	(404,938.88)	(1,280,876.65)
	Balance as at the end the Year	1,118,912.62	577,715.50

19	Interest Income	2015	2014
	LLDF	81,136,093.89	54,386,062.03
	UDLIHP	71,283,893.05	120,567,659.50
	PCDP	4,963,971.00	5,105,948.50
	LGIIP	121,478,644.03	142,681,703.28
	NW & DP	823,097.90	870,068.60
		279,685,699.87	323,611,441.91

20	Interest Expenses	2015	2014
	LLDF	19,926,385.93	18,642,043.92
	UDLIHP	95,329,229.05	100,096,493.06
	PCDP	4,944,531.00	5,194,976.77
	LGIIP	35,515,308.32	35,515,308.32
		152,715,454.30	159,448,822.07

21	**Other Income**	2015	2014
	Recived in Suspence		
	LLDF	-	-
	UDLIHP	-	-
	PCDP	-	-
	LGIIP	-	-
	Liquidated Damages Income		
	LLDF	-	-
	UDLIHP	-	-
	PCDP	-	-
	LGIIP	167,133.89	527,555.45
	Other Income		
	LLDF	274,832.12	142,760.61
	UDLIHP	-	-
	PCDP	-	-
	LGIIP	-	-
		441,966.01	670,316.06

22	Administrative Expences	**2015**	**2014**
	Staff Salaries	11,189,75.92	8,197,134.51
	C.O.L Allowance - LLDF	2,948,660.00	2,862,600.00
	Staff bonus	-	804,375.00
	Allowance For Chairman.	842,832.50	475,590.00
	Incentive- UDLIHP	74,000.00	489,324.00
	Board of Commissioner's Travelling	201,880.00	163,380.00
	Allowance For.B.Coms	9,000.00	722,400.00
	E.P.F.	1,656,933.50	1,267,967.46
	E.T.F.	414,233.38	316,991.86
	Gratuity expenses	566,809.83	565,917.08
	Overtime & Holly day Pay	131,563.67	224,912.84
	Staff Welfare	165,814.00	236,869.32
	Telephone Allowancess	35,928.58	-
	Special Allowancess for DO	125,787.10	-
	Meeting Expenses	105,771.00	94,849.10
	Audit Expenses	169,358.33	360,000.00
	Postage & Telephone	361,809.17	405,998.39
	Stationery / Printing	597,441.96	573,538.19
	Vehicle Maintenance - 54/6233	67,055.00	270,607.00
	Fuel	204,387.75	405,668.43
	Electricity	620,014.12	656,739.65
	Security Charges	392,341.64	356,474.40
	Water Supply	34,215.44	52,025.50
	Cleaning service Charges	254,745.00	262,339.00
	Maintanance & Equipments	126,583.23	419,541.57
	Maintanance & Building	765,647.68	468,022.95
	Staff Training	268,705.00	376,716.00
	Computer Maintance	1,318,576.00	641,930.00
	Office rent	101,110.00	701,110.00
	Awareness Program	-	200,000.00
	Equipment Depreciation	75,463.05	82,899.06
	Furniture and Fittings Depreciatuin	275,298.08	1,051,169.20
	Computer Hardware ,Software Depreciation	1,008,292.93	-
	LLDF Modernization – Assests Depreciation	312,239.34	312,239.34
	Motor Vehicle Depreciation	1,599,000.00	799,500.00
	Legal Expenses	-	-
	Bank Charges	13,053.73	9,695.18
	Development Ass. Traveling	820,664.87	1,162,536.41
		27,851,969.80	25,991,061.44

23	Net Grant amortization	2015	2014
	Grant Amortized-Expenses(Income Statement Debit)	239,184,673.03	318,907,755.43
	Grant Amortized-Revenue(Income Statement Credit)	(203,301,671.33)	(123,805,252.34)
		89,883,001.70	195,102,503.09

24	Financial Income	2015	2014
	Interest on Treasury Bill		
	LLDF	914,363.75	870,127.75
	UDLIHP	2,371,411.24	2,648,651.17
	PCDP	-	-
	LGIIP	889,279.21	993,244.15
	Interest on REPO		
	LLDF	708,424.47	-
	UDLIHP	1,155,846.31	-
	LGIIP	1,506,225.92	-
	Interest on Savings Deposits		
	LLDF	774,739.57	996,674.83
	UDLIHP	815,708.37	2,381,857.52
	PCDP	-	-
	LGIIP	1,171,952.12	3,945,923.01
	Interest on Fixed Deposits		
	LLDF	11,398,436.67	2,180,367.14
	UDLIHP	138,630.14	4,854,038.36
	PCDP	-	-
	LGIIP	92,351.35	95,818.47
		21,937,368.12	18,966,702.40

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 2015 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 2015 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	05%
Staff Turnover	05%
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