LOCAL LOANS & DEVELOPMENT FUND

ANNUAL REPORT AND ACCOUNTS

2016

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 2016)

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.J.M.R.P.Jayasinghe	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 - 2016

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 2016 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 Provincial Councils & Local Government

BANKERS : Bank of Ceylon

STAFF

The following staff was employed by the Fund, as at 31st December 2016.

Designation	**No of Employeed**
Chief Executive Officer	01
Deputy Director (Operation)	01
Assistant Accountant	01
Administrative Officer	01
Development Officer’s	17
Management Assistant	08
Driver	02
Office Aide	02
Total	**33**

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 2016

Rs.200 million was allocated in the institutional Budget in 2016 for the purpose of granting loans to the Local Authorities. During the year total Loans granted to 09 Local Authorities were Rs.144.6 million. Performance is considered as good as its average of 72%. 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 - 2016

	Category	Interest Rate	Amount (Rs.)	No of Projects
1	Establishment of Road Maintenance Unit	9.0%	34,520,000	03
2	Construction of Crematoria	6.5%	5,900,000	01
3	Construction of Market Buildings	9.0%	23,228,000	03
4	Solid Waste Management	6.5%	50,000,000	01
5	Construction of Public Library	7.0%	31,000,000	01
	Total		**144,648,000**	**09**

INCOME

The fund has earned a Gross Income of Rs.177 million on operations **(**Including ADB funded projects). Further Rs.52.6 million has been earned by investing revolving funds, in State Banks. Net surplus of Rs.94.1 million has been earned after making operational expensesand amortization of Rs.54 million (grant component) to LA's under LGIIP project. Further the imparement for loans and receivales for the year 2016 is Rs.142 million. Surplus before tax is Rs.4.4 million.

Interest Income, Investment Income and Interest Payment to the Treasury during the year 2016 (Project Wise)

(Rs.Million)

	LLDF	PCDP	UDLIHP	LGIIP	Total
ıterest Income	81.4	4.8	92.4	126.1	304.7
terest Payment ɔ the Treasury	15.2	4.8	72.3	35.4	127.7

Investment Income - Year 2016

(Rs.Million)

Catogary	LLDF	UDLIHP	LGIIP	Total
Treasury Bills	1.2	-	1.8	3.0
Fixed Deposits	-	1.3	-	1.3
Fund Management Account	1.0	0.2	0.4	1.6
REPO Investment	17.7	7.0	21.9	46.6
Total	19.9	8.5	24.1	52.5

Net Income from last 05 years – 2012 -2016

(Rs.Million)

Year	Net Income Before Tax (Rs.Million)
2012	(335.4)
2013	(246.4)
2014	(134.1)
2015	5.1
2016	4.4

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

REPAYMENT TO THE TREASURY

During the year Capital repayment to the Treasury was Rs.21.9 million. and the interest payment to the Treasury was Rs.15.2 million for loans obtained under LL&DF and Rs.74.1 million has been paid to the Treasury as capital and Rs.72.3 million as interest under UDLIHP. The Rs.1.7 million has been paid to the Treasury as capital and Rs.35.4 has been paid to the Treasury as interest under LGIIP Loans. Further under ADB Loan No.899 SRI (SF) Rs.3.9 million has been paid to the Treasury as capital and Rs.4.8 million has been paid as interest.

(Rs.Million)

PROJECT	CAPITAL REPAYMENT	INTEREST PAYMENTS	TOTAL
LLDF	21.9	15.2	37.1
PCDP	3.9	4.8	8.7
UDLIHP	74.1	72.3	146.4
LGIIP	1.7	35.4	37.1
Total	**101.6**	**127.7**	**229.3**

RECOVERIES

Rs.138 million and Rs.75.3 million was recovered being capital and interest due from loans granted by LL&DF own Operations. Further Rs.97.1 million and Rs.70.9 million recovered, being capital and interest on ADB Loan No.1632.SRI (SF). Rs.1.8 million and Rs.6.4 million was recovered under PCDP as capital and interest during the year. Further Rs.126.9 million and Rs.108.6 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	138.0	75.3	213.3
PCDP	1.8	6.4	8.2
UDLIHP	97.1	70.9	168.0
LGIIP	126.9	108.6	235.5
TOTAL	**363.8**	**261.2**	**625.0**

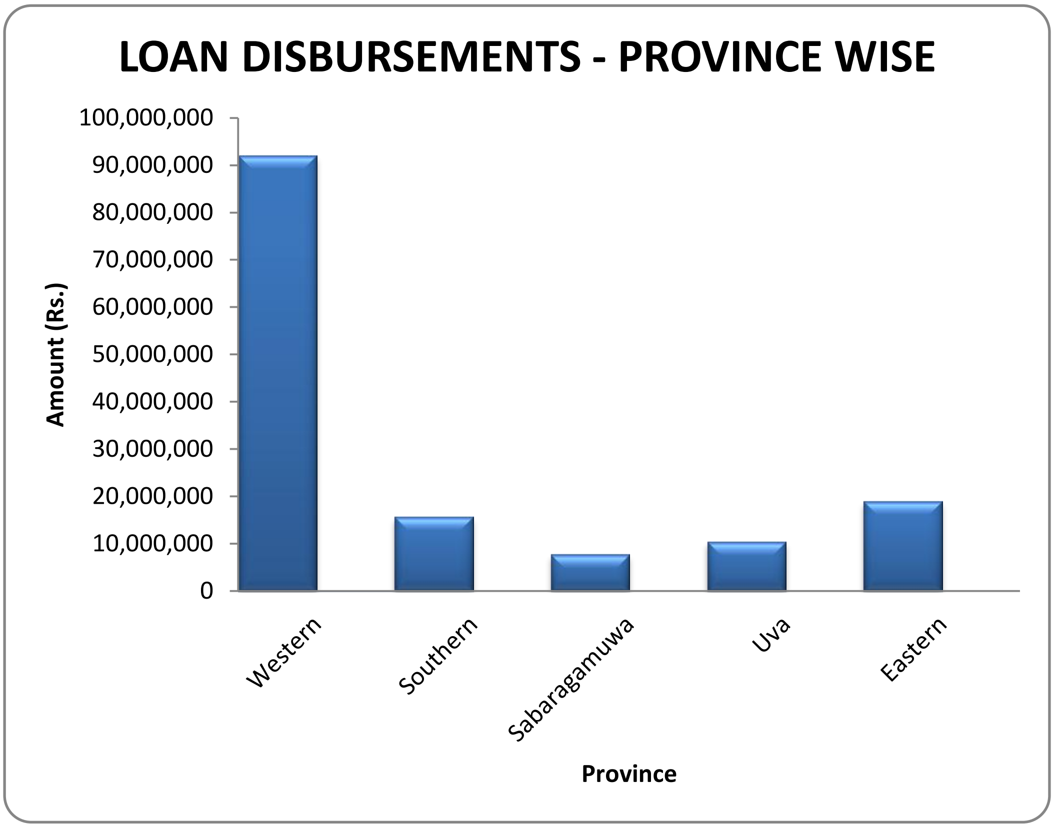
LOCAL LOANS AND DEVELOPMENT FUND
LOAN RELEASED AS AT 31.12.2016

	Councils	**Province**	**Amount**	**Solid Waste Management**	**Construction of Crematoria**	**Establishment of Road Maintenance Unit**	**Construction of Market Building**	**Cconstruction of Library Building**
1	Bibila PS	UVA	4,539,000				4,539,000	
2	Sri Jayawardhanapura Kotte MC	WP	50,000,000	50,000,000				
3	Sooriyawewa PS	SP	15,600,000			15,600,000		
4	Negambo MC	WP	31,000,000					31,000,000
5	Eravurpattu PS	EP	9,400,000			9,400,000		
6	Dehiowita PS	SAB	7,689,000				7,689,000	
7	Koralai Pattu North PS	EP	9,520,000			9,520,000		
8	Sri Jayawardhanapura Kotte MC	WP	11,000,000				11,000,000	
9	Mahiyangana PS	UVA	5,900,000		5,900,000			
	Total		**144,648,000**	**50,000,000**	**5,900,000**	**34,520,000**	**23,228,000**	**31,000,000**

LOAN DISBURSEMENTS - PROVINCE WISE

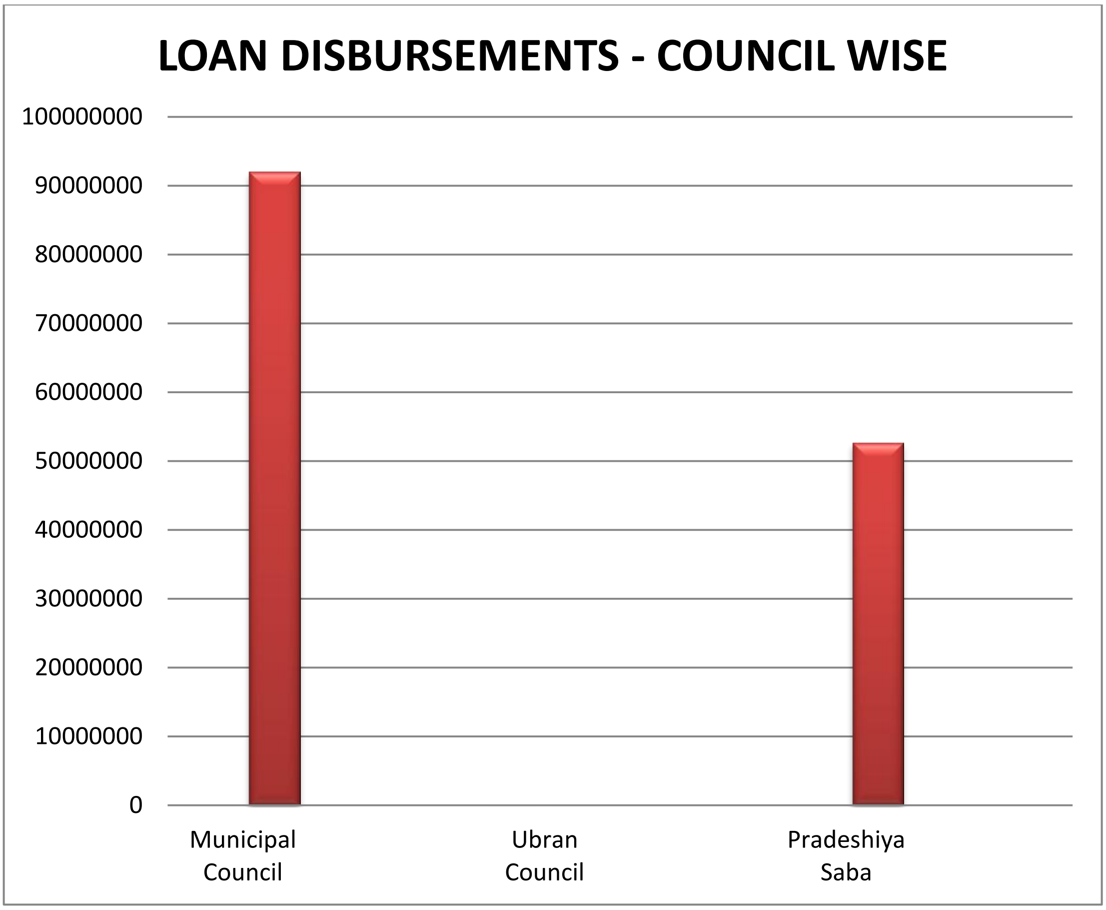
YEAR -2016

Province	Amount (Rs.)	Percentage (%)
Western	92,000,000	64
Southern	15,600,000	11
Sabaragamuwa	7,689,000	05
Uva	10,439,000	07
Eastern	18,920,000	13
Total	**144,648,000**	**100**



LOAN DISBURSEMENT FOR THE PERIOD – YEAR 2016 COUNCIL WISE

Council	Amount Rs.	% of the Total
Municipal Councils	92,000,000	64
Urban Councils	-	-
Pradeshiya Sabas	52,648,000	36
Total	**144,648,000**	**100**



LOCAL LOAN AND DEVELOPMENT FUND
LOAN REPAYMENT TO THE TREASURY
2012 - 2016

Rs. Million

Year	Capital				Interest				Total
	LLDF	PCDP	UDLIHP	LGIIP	LLDF	PCDP	UDLIHP	LGIIP	
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
2016	21.9	3.90	74.1	1.7	15.2	4.8	72.3	35.4	229.3
Total	**112.3**	**11.58**	**456.1**	**1.7**	**92.9**	**28.3**	**457.4**	**170.5**	**1,330.80**

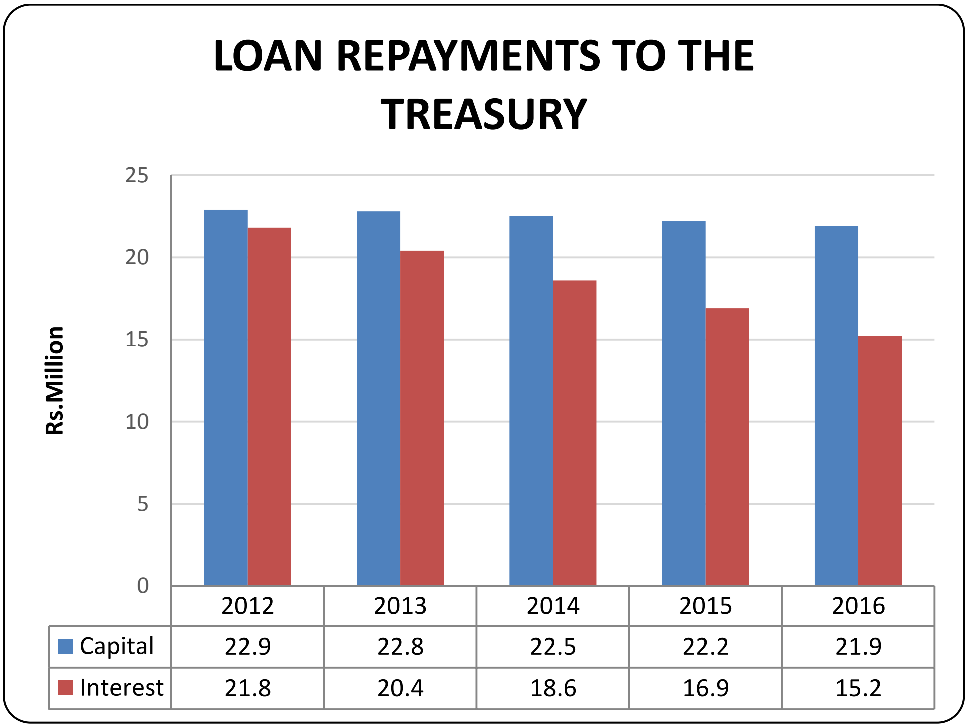
Loans issued under the Local Government Infrastructure Improvement Project (LGIIP). The LL&DF repay to the Treasury only the interest within the grace period.

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
2012 – 2016

Rs. 000

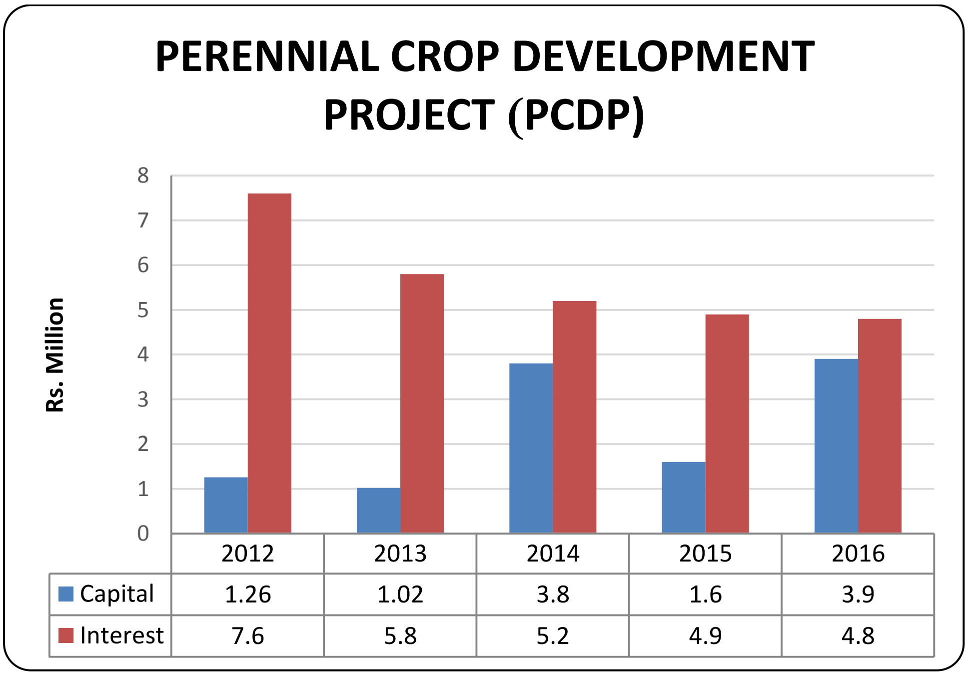
Year	Capital	Interest
2012	22.9	21.8
2013	22.8	20.4
2014	22.5	18.6
2015	22.2	16.9
2016	2016	21.9



LOAN REPAYMENTS TO THE TREASURY
2012 – 2016
PERENNIAL CROP DEVELOPMENT PROJECT (PCDP)

Rs. Million

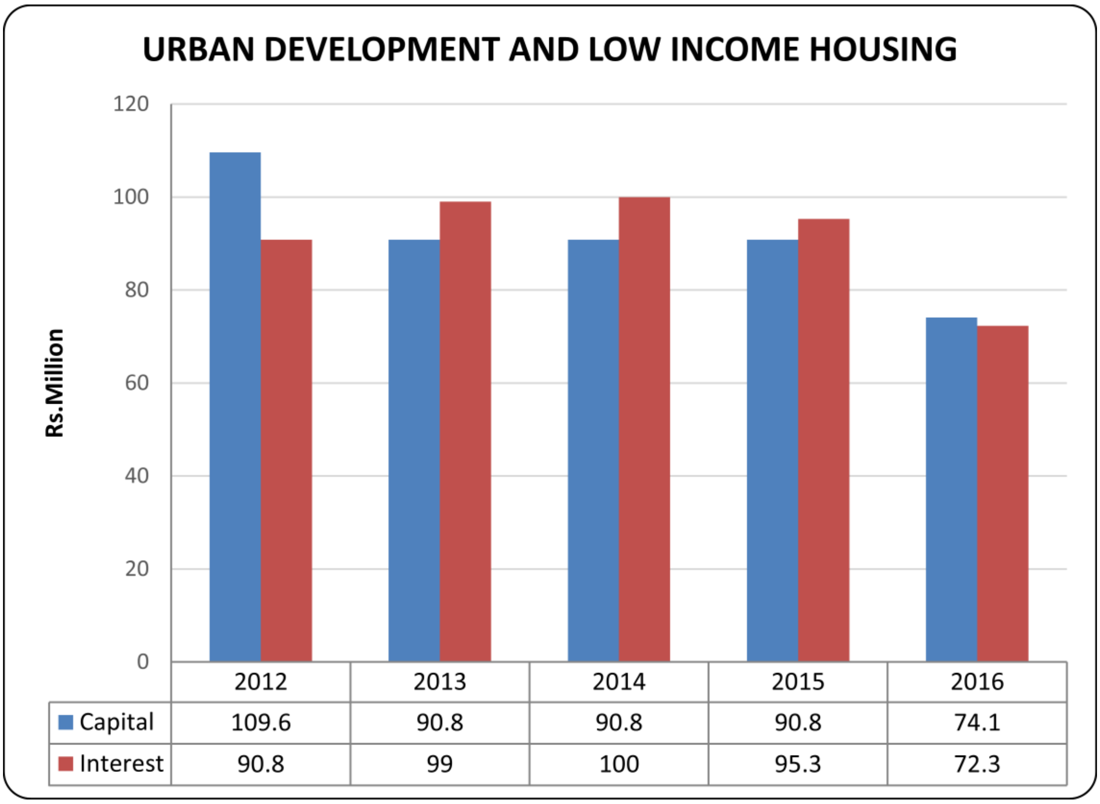
Year	Capital	Interest
2012	1.26	7.6
2013	1.02	5.8
2014	3.8	5.2
2015	1.6	4.9
2016	3.90	4.8



LOAN REPAYMENTS TO THE TREASURY
2012 – 2016
URBAN DEVELOPMENT AND LOW INCOME HOUSING ROJECT (UDLIHP)

Rs. 000

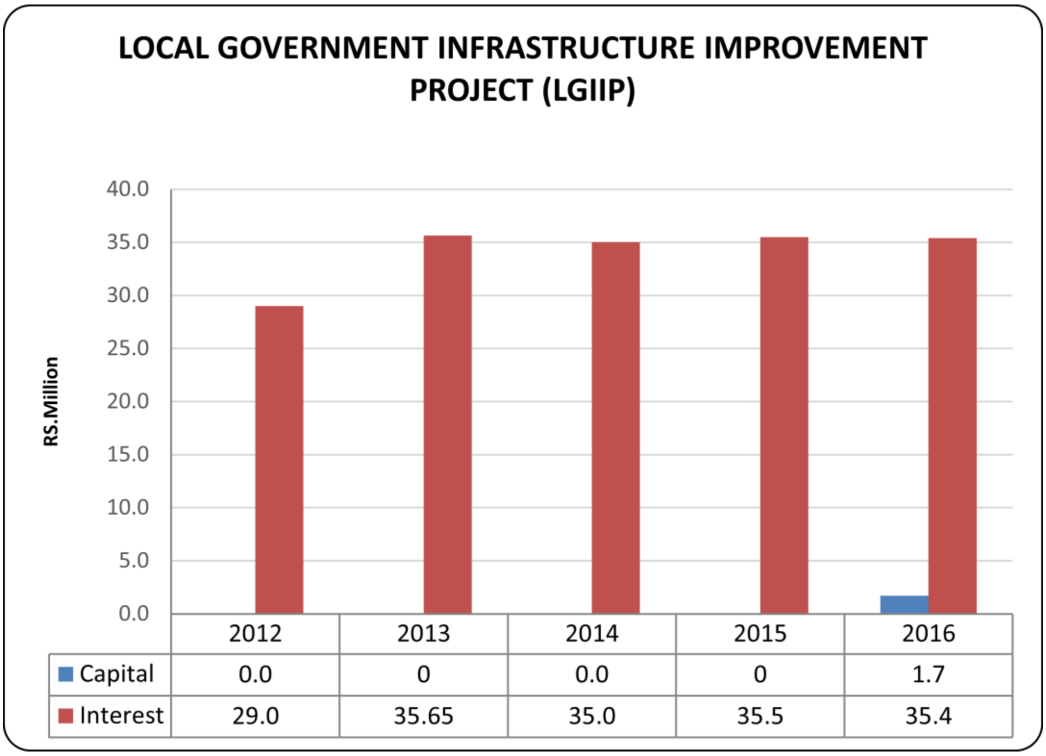
Year	Capital	Interest
2012	109.6	90.8
2013	90.8	99.0
2014	90.8	100.0
2015	90.8	95.3
2016	74.1	72.3



LOAN REPAYMENTS TO THE TREASURY
2012 – 2016
LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT PROJECT (LGIIP)

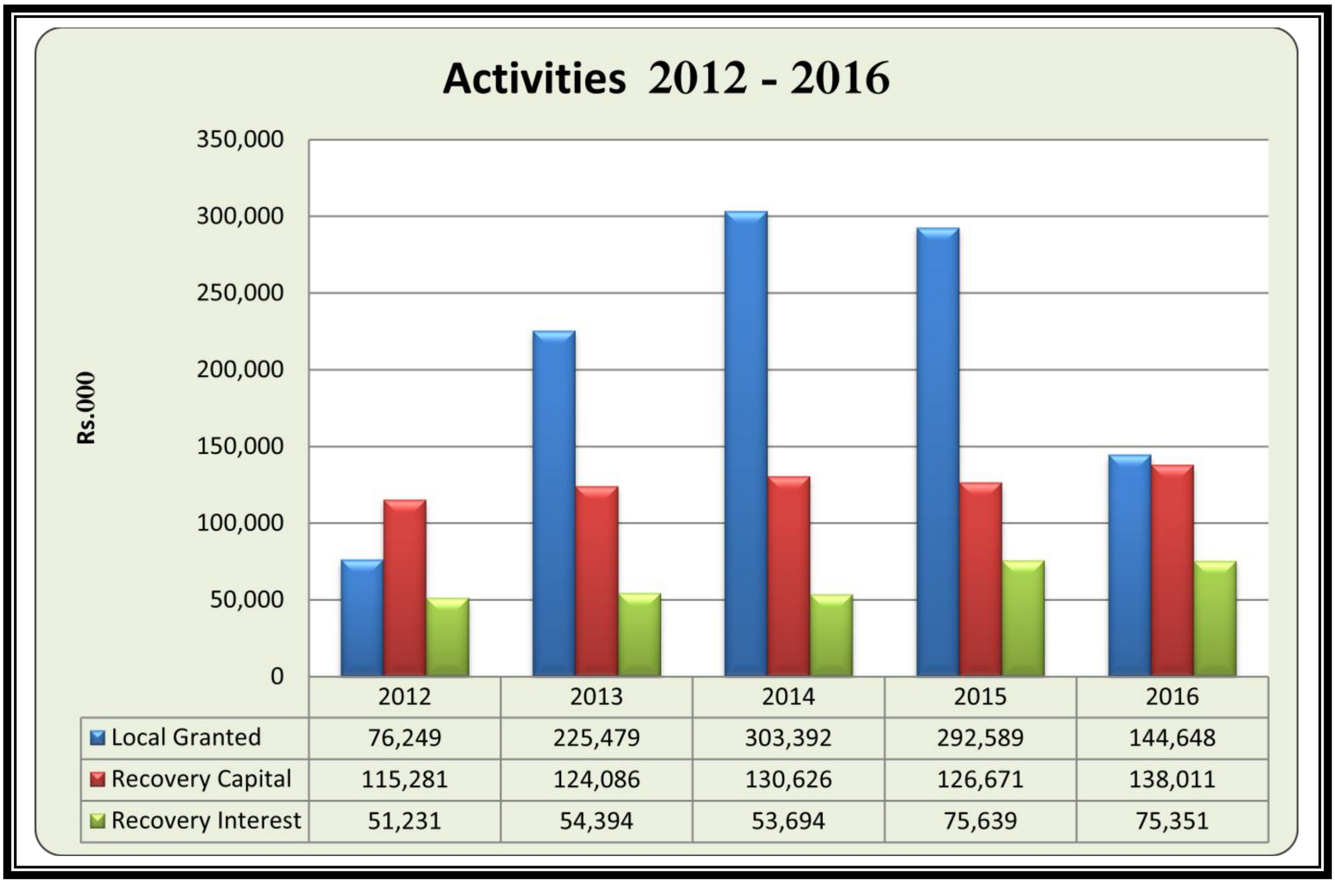
Rs. Million

Year	Capital	Interest
2012	-	29.00
2013	-	35.65
2014	-	35.00
2015	-	35.50
2016	1.7	35.40



Local Loans and Development Fund
Performance 2012 – 2016
(Except ADB Projects)

Year	Loans Granted	Recovery Capital	Recovery Interest
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
2016	144,648	138,011	75,351



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
2012	76.6	93.5
2013	82.4	90.3
2014	89.6	80.0
2015	94.7	69.4
2016	97.1	70.9

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 - 2016

The Audit & Management Committee of the Local Loans and Development Fund is appointed by the Board of Commissioners as per Public Enterprises Circular No PED/55 of 14.12.2010. The Audit & Management Committee consists of Two Non-Executive Directors and Ministry Internal Auditor. The Committee chaired by the Treasury Representative to the Board of Commissioners and Superintendent of Audit represent the Auditor General, as an observer. Chief Executive Officer is the convener.

(01) PREPARATION OF FINANCIAL STATEMENTS FOR THE YEAR 2012 AND 2015

Instructions has been given to preparation of Financial Statements for the year 2012 and 2015 in accordance with the Sri Lanka Financial Reporting Standards (SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka.

(02) RECOVERY OF NON PERFORMING LOANS

Actions has been taken to summon the heads of Local Authorities and Heads of the Provincial Level to discuss the overdue Loans and Committee recommendation was to reschedule the loans. Further Committee recommended to the Board to take legal action against the default parties.

(03) CORPORATE PLAN AND ACTION PLAN

Instruction issued for the 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.

(05) FILLING VACANCIES

Instructions issued for fill the existing vacancies by the publishing paper advertisement as per the Scheme of Recruitment as soon.

COMMITTEE MEMBERS - YEAR 2016

Mr.H.T.Kamal Pathmasiri	Secretary, Ministry of Provincial Councils & Local Government	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.U.U.P.Perera	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/2016

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date 09 October 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 2016 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 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income and statement of cash flow 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 18 May 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.
+94 11 2 88 70 28 - 34 +94 11 2 88 72 23 ag@auditorgeneral.gov.lk www.auditorgeneral.gov.lk

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 Financial Reporting Standards and Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Presentation of Financial Statements

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 had been balanced by including a sum of Rs.2,501,824 as a debit balance in the Suspense Account under the current assets and a sum of Rs.22,063,699 as a credit balance under the current liabilities in the Suspense Account.

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2.2.3 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 with the financial statements 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 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.

(b) Sri Lanka Accounting Standard 07

The following observations are made on the cash flow statement.

(i) Although payment and receipt of interest of the financial institutions can be stated as their operating activities, payment of interests amounting to Rs. Rs.155,603,616 and receipt of interests amounting to Rs.305,633,906 relevant to the Fund had been again added to the profit in the preparation of financial statements of the Fund.

(ii) Although the depreciation value stood at Rs.3,270,293 relating to the year under review in accordance with the financial statements, it had been stated as Rs.3,776,138 in the cash flow statement and as such, the cash flow statement had been overstated by Rs.505,845 before adjusting the working capital variations.

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(iii) According to the statement of financial position as at 31 December 2016, decrease of the debtors amounted to Rs.388,761,890, whereas it had been stated as Rs.399,363,835 under the capital item variation and as such, cash inflow had been overstated by Rs.10,601,945.

(iv) Although the amortization of Grants given to Local Authorities-LGIIP amounting to Rs.54,773,440 should be adjusted to the before tax profit in the calculation of cash flow generated from the operating activities, it had been adjusted under the working capital variations.

(v) According to the statement of financial position, the increase in the interest account payable to the Treasury amounted to Rs.72,318,793 and it should have been stated as a cash inflow under the working capital variation in the cash flow statement . Nevertheless, it had been stated as a cash outflow of Rs.94,084,745.

(vi) Although the loans granted to the Local Authorities had been represented through the debtors, a sum of Rs.144,644,000 had been shown again as the payment of loans to the Local Authorities in the cash flow statement under the financial activities.

(vii) Loan impairment value of Rs.142,363,848 brought to account relating to the year under review had not been adjusted in the computation of cash flow generated from the operating activities.

(c) Sri Lanka Accounting Standard 12

Main segments of the tax expenditure/liability had not been separately recognized and disclosed in terms of Paragraph 79 of the Standard.

(d) 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

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that, an accounting policy had been recognized stating the fact that the assets are not depreciated in the year of purchase.

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

(e) 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 in connection with the post employee benefits 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) 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.3,851,639 spent by the Fund for the renovation of the above building for which there was no legal ownership or temporary ownership had been capitalized under the buildings, whereas no policy had been recognized for writing off the above assets.

(b) Although a sum of Rs.5,275,731 had been shown as the capital grants balance in the statement of financial position as at 31 December of the year under review, an accounting policy had not been recognized under a formal basis in accordance

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with Paragraph 12 of Sri Lanka Accounting Standard 20 for identifying it as an income.

2.2.5 Accounting Deficiencies

The following observations are made.

(a) Although the net value of the Property, Plant and Equipment amounted to Rs.12,838,773 as at 31 December 2016, due to erroneous computation, it had been stated as Rs.16,069,192 in the Note 1 of the statement of financial position presented to audit. Accordingly, value of the Property, Plant and Equipment had been overstated by Rs.3,230,419.

(b). According to the financial statements, annual depreciation value of the Furniture and Fittings relating to the year under review amounted to Rs.275,298, whereas it was Rs.30,328 as per the schedule furnished to Audit. Accordingly, depreciation relating to the year under review had been overstated by Rs. 244,970.

(c). Although the cost of the Laptops accounted under the LLDF Modernization Assets Class had been transferred to the Computer Hardware, Software and Office Equipment Account, accumulated depreciation value of Rs.2,395,166 relating to the above assets had not been transferred to the relevant provision for depreciation account. Further, a sum of Rs.198,041 exceeding the depreciable value of the above assets had been depreciated and as such, surplus and the net value of the assets of the year under review had been understated by that amount.

(d). Even though the investment value of the Repurchase Agreements (REPO) of the Fund as at 31 December 2016 had been stated as Rs.180,600,000 in the statement of financial position, it was Rs.180,000,000 according to the confirmations of bank balance. Accordingly, investment value had been overstated by Rs.600,000.

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(e). Although a sum of Rs.329,400 had been stated as Commissioner Board advances as at 31 December 2015, this amount had not been brought forward as the opening balance of the year 2016 and as such, the balance of that account had been understated by that amount.

(f). Although the balance of the provision for gratuity account amounted to Rs.2,915,417 according to the financial statements as at 31 December 2015, that balance had been brought forward as Rs.4,609,931 as at 01 January 2016. Accordingly, the balance of the provision for gratuity account as at 31 December 2016 had been overstated by Rs.1,694,514.

(g). The value of loan installment amounting to Rs.2,662,767 received in the preceding year relating to the year 2016 had been further stated under the current liabilities without being credited to the debtors account during the year under review .

(h) Allowance for Chairman of Rs.1,197,325 relevant to the year under review had been accounted twice.

(i) Interest income on fixed deposit of Rs.2,773,976 and interest income on the investments in Treasury Bills of Rs.2,539,706 receivable relating to the year under review had not been brought to account.

(j) Interest of Rs.18,243,168 payable as at 31 December 2016 to the Treasury under the Urban Development and Low Income Housing Project (UDLIHP) had been understated in the account.

(k) According to the statement of financial position, a sum of Rs.360,000 had been allocated as audit fees relating to the year under review, whereas that amount had not been recognized as an expenditure in the statement of comprehensive income.

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2.2.6 Unexplained Differences

Although the value relating to 11 items of accounts as at 31 December 2016 amounted to Rs.960,711,969 according to the financial statements, that balance totalled Rs.1,166,388,480 according to the schedules/ledgers relevant thereto, thus observing a difference of Rs.382,727,868.

	Item of Account	Value as per the financial statements Rs.	Value as per the schedule Rs.	Value as per the ledger Rs.	Difference Rs.
(a)	Debtors	119,843,374	129,925,205		10,081,831
(b)	Loan Interests Receivable	203,937,342	477,673,989		273,736,647
(c)	Property, Plant and Equipment	15,463,246	9,927,804		5,535,442
(d)	Opening balance of Computer, Software, Hardware and Office Equipment	75,463	6,895,602		6,820,139
(e)	Interest Income	305,633,907	290,822,282		14,811,625
(f)	Repurchase Agreements	46,629,168	36,638,566		9,990,602
(g)	Balances of 03 Current Accounts	199,156,820	-	146,025,749	53,131,071
(h)	Investments	52,628,805	49,255,849		3,372,956
(i)	Property Loan	475,053	2,038,525		1,563,472
(i)	Distress Loan	4,882,506	3,198,624		1,683,883
(j)	Advance of the Local Government Infrastructure Development Project	11,986,285	-	13,986,285	2,000,000
	Total	**960,711,969**	**1,006,376,446**	**160,012,034**	**382,727,868**

2.2.7 Lack of 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.

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	Item of Account	Value Rs.	Audit Evidence not Furnished
(a)	Fixed Deposit Investments	24,640,898	Balance confirmations, Fixed deposit certificates
(b)	Deposits Recoverable	40,052	Detailed computations/Schedules
(c)	Interest on loan relating to Perennial Crops Development Project (PCDP)	4,077,810	Detailed computations/Schedules
(d)	Writing off of the capital included in the loans given to the Local Authorities.	54,773,440	Detailed computations/Schedules
(e)	Impairment of loans	142,363,848	Detailed computations/Schedules
(f)	Receipt of Advances	51,698,087	Detailed computations/Schedules
(g)	Provision for Gratuity	1,694,514	Actuarial Assessment Report

2.4 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 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.

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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.3,569,413 as compared with the corresponding surplus of Rs.4,226,494 in the preceding year, thus showing a deterioration of Rs.657,081 in the financial results of the year under review as compared with the preceding year. Although income of the year under review had increased by Rs.61,375,457 as compared with the preceding year, increase in the expenditure by Rs.62,032,538 had mainly attributed for the above deterioration of the financial result.

In analyzing financial statements of the year under review and 4 preceding years, although a continuous deficit in the financial result was observed from the year 2012 to the year 2014, that deficit had continuously decreased from Rs.337,504,858 to Rs.135,412,981 and a surplus of Rs.4,226,504 and Rs.3,560,413 was observed in the year 2015 and 2016 respectively. Further, 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 2015 had been a positive value of Rs.53,215,095 and it had increased up to Rs.173,248,771 by the end of the year under review.

4. Operating Review

4.1 Performance

4.1.1 Planning

Although the Fund had prepared an Action Plan for the year 2016, it had not been prepared in accordance with the Public Finance Circular No.01/2014 dated 17 February 2014.

4.1.2 Operation 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 28 loan balances valued at Rs.552,027,729 existed in the inoperative loan list for more than a period of one year by the end of 2016, only 11 loan balances valued at Rs.104,367,052 had been rescheduled during the year under review, whereas an effective measure had not been taken to recover the balance of Rs.447,660,677. Further, the Fund had not prepared an age analysis relating to the loan installments in arrears and the interests.

(b) Although a sum of Rs.800,000,000 had been allocated for granting loans to the Local Authorities during the year under review, only a sum of Rs.144,648,000 had been granted to 5 Local Authorities. Accordingly, the progress thereof had remained at a lower level as 18 per cent Further, in analyzing the granting of loans at provincial wise, any loan had not been granted to the Central, North-central, North and North-western provinces.

4.2 Management Activities

The following observations are made.

(a) Although the grant of loans to the Local Authorities and the recovery of such loans are the functions of the Fund, proper accounting methodology had not been introduced to recognize interest and the capital separately in the recovery of those loans.

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(b) Although a sum of Rs.1,391,772 had been received from the Puttalam Urban Council in the year 2016, it had been returned without being utilized for the settlement of a part of the sum of Rs.27,835,570 receivable from the Council.

(c) 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 Commissioners Board shall have the powers to appoint the staff. Nevertheless, without the approval of the Commissioners Board, the Secretary to the Ministry of Public Administration and Provincial Councils and Local Government had appointed a Class I officer in the Accountant Service on acting/ discharging of service basis. 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.1,244,905 had been paid to the above officer as the salary for acting service, fuel, and transport allowances.

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.

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.

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Area of systems and controls	Observation
(a) Accounting and maintenance of books	(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 updating the computer system purchased and installed by the Fund in the year 2012.
(b) Control of Loan	An adequate arrangement had not been made to recover the loan installments and the interest receivable to the Fund.

Sgd./ H.M. GAMINI WIJESINGHE
Auditor General

H.M. Gamini Wijesinghe
Auditor General.

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

For the year ended 31.12.2016		**2016**	**2015**
	Note	**Rs. Cts.**	**Rs. Cts.**
Revenue			
Interest Income	19	305,633,906.48	279,685,699.97
Interest Expenses	20	(127,908,656.43)	(152,715,453.30)
Net Interest Income		**177,725,250.05**	**126,970,246.67**
Other Income	21	5,177,779.63	441,966.01
Administrative Expences	22	(33,932,782.29)	(27,851,969.80)
Net Grant amortization	23	(54,773,440.00)	(89,883,001.70)
Operating Profit		**94,196,807.39**	**9,677,241.18**
Imparement for Loans and receivables		(142,363,847.63)	(26,441,969.00)
Financial Expenses		-	-
Financial Income	24	52,628,804.92	21,937,368.12
Profit Before Tax		**4,461,764.68**	**5,172,640.30**
Tax Expencess		(892,352.00)	(946,136.00)
Profit After Tax		**3,569,412.68**	**4,226,504.30**
Net Profit for the year		3,569,412.68	4,226,504.30
Retained Earnings At the Beginning of the year		(935,525,797.79)	(939,752,302.09)
Retained Earnings At the End of the year		**(931,956,385.11)**	**(935,525,797.79)**

Local Loans and Development Commissioners
(Local Loans and Development Fund)
Statement of Financial Position
As at 31st December 2016

As at 31st December 2016	Note	2016 Rs. Cts.	2015 Rs. Cts.
ASSETS			
Non Current Assets			
Property, Plant & Equipment	1	16,069,191.60	16,069,191.60
Investment in Fixed Deposit and Treasury Bills	2	816,434,637.66	127,296,453.58
Grant given to LA -LGIIP	3	1,179,508,027.99	1,234,281,467.99
Staff Debtors	4	5,376,809.18	5,059,368.52
Total Non Current Assets		**2,017,388,666.43**	**1,382,706,481.69**
Current Assets			
Debtors	5	2,832,526,140.39	3,231,889,975.71
Loan Interest Receivables	6	203,937,341.83	193,335,396.12
Refundable Deposits		40,051.61	40,051.61
Investment Income Receivable - UDLIHP	7	589,275.95	2,522,742.00
Suspense account - LGIIP		2,501,823.79	-
Cash Balance at PMU		-	19,500,745.64
Cash & Cash Equivelent	8	193,405,182.75	282,014,936.93
Total Current Assets		**3,232,999,816.32**	**3,729,303,848.01**
Total Assets		**5,250,388,482.75**	**5,112,010,329.70**
EQUITY & LIABILITIES			
Equity		(935,525,787.79)	(939,752,302.09)
Retained Earnings	9	3,569,412.68	4,226,504.30
Total Equity		**(931,956,385.11)**	**(935,525,787.79)**

Liabilities			
Non Current Liabilities			
Borrowings from General Treasury	10	5,529,959,514.95	5,557,629,959.03
GOSL Grant -LGIIP	12	482,236,858.92	392,754,314.94
Provision for Gratività	13	6,304,445.42	2,915,417.20
Retention Payable to LA		-	-
Govt.Assistance(Capital)-LGIIP	14	5,275,731.07	5,275,731.07
Total Non Current Liabilities		**6,023,776,550.36**	**5,958,575,422.24**
Current Liabilities			
Interest payable to the General Treasury	15	94,084,744.99	21,765,947.75
Suspence Received		-	22,063,699.27
Provisions & Accrude Expenses	16	10,220,357.11	8,887,813.00
Recived in Advance	17	51,698,086.78	15,623,576.97
Current tax Liability	18	2,565,128.62	1,118,912.62
Current Liability to LGIIP (C. A/C op.)		-	19,500,745.64
Total Current Liabilities		**158,568,317.50**	**88,960,695.25**
Total Liabilities		**5,250,388,482.75**	**5,112,010,329.70**

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)

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

Local Loans and Development Commissioners
(Local Loans and Development Fund)
Statement of Cash Flows

For the year ended 31.12.2016	**2016**	**2015**
	Rs. Cts.	**Rs. Cts.**
Cash Flows From Operating Activities		
Net profit before taxation	4,461,764.68	(119,510,657.34)
Adjustment for		
Interest Paid	155,603,616.20	-
Interest Income	305,633,906.48	(21,937,368.12)
Depreciation	3,776,137.65	3,270,293.40
Provisions	-	-
Provision for gratuity	1,694,514.11	566,809.83
Adjustment to gratuity	-	-
Suspense Account	-	22,262,753.65
Operating Profit before Working Capital Changes	**417,169,939.12**	**(115,348,168.58)**
(Increase)/Decrease in Debtors & Receivables	399,363,835.32	155,741,641.21
(Increase)/Decrease in Grant given to LA LGIIP	54,773,440.00	293,184,673.03
Increase/(Decrease) in Other Receivables	-	-
Increase/(Decrease) in Advance Received	-	4,632,604.50
Increase/(Decrease) in Staff Debtors	(317,440.66)	(926,686.01)
Increase/(Decrease) in Interest Payble to General treasury	(94,084,744.99)	(95,329,229.14)
Increase/(Decrease) in Trade Creditors & Other Payables	-	(155,331.92)
Increase/(Decrease) in Borrowings	(27,670,444.08)	(113,005,818.51)
Cash generated from operation	**332,064,645.59**	**128,793,684.58**
Interest Paid to General Treasury	(55,589,859.19)	-
Interest Received	5,177,779.63	21,937,368.12
With Holding Tax Paid	-	(404,938.88)
Income Tax Paid	-	-
Net cash used in operating activities	**752,822,505.15**	**150,326,113.82**
Cash flow from investing activities		
Purchase of Property, Plant & Equipment	(39,875.00)	(587,387.50)
Sale proceed of disposal	-	-
Withdrawal Fixed Deposit	(508,000,000.00)	205,000,000.00
Treasury bill	-	(36,210,886.15)
Purchasing of REPO	(180,600,000.00)	-
Net Cash used in investing activities	**(688,639,875.00)**	**168,201,726.35**
Cash flow from financing activities		
Loan Obtained	(144,644,000.00)	(799,500.00)
Loan Repayment	(27,649,074.93)	(113,819,127.35)
Net cash from financing activities	(172,293,074.93)	(114,618,627.35)
Net decrease in cash and cash equivalents	**108,110,499.82**	**203,909,212.82**
Cash and cash equivalent beginning of the year (Note A)	301,515,682.57	97,606,469.75
Cash and cash equivalent end of the year (Note A)	**193,405,182.75**	**301,515,682.57**
NOTE A		
Cash & Cash Equivalents	2016	2015
	Rs. Cts.	**Rs. Cts.**
Savings Deposits	199,156,819.98	484,004,042.15
Cash Balance at PMU	-	19,500,745.64
Cash at bank	(5,751,637.23)	(201,989,105.22)
Cash and Cash equivalent end of the year	**193,405,182.75**	**301,515,682.57**

LOCAL LOANS & DEVELOPMENT COMMISSIONERS

Local Loans and Development Fund

Notes to the Financial Statements

For the year ended 31.12.2016

1 **Fixed Assets**

Cost

Description	**Cost as at 01.01.2016**	**Additions/ (Disposals)**	**Cost as at 31.12.2016**
Office Equipment	2,357,469.16	39,875.00	2,397,344.16
Furniture and Fittings	5,624,472.62	-	5,624,472.62
Computer Hardware ,software & Office Equipment	75,463.05	-	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	**20,563,811.81**	**39,875.00**	**27,423,825.76**

Accumulated Depreciation

Description	**Balance as at 01.01.2016**	**Depreciation for the year**	**Balance as at 31.12.2016**
Office Equipment	2,055,616.98	75,463.05	2,131,080.03
Furniture and Fittings	1,444,958.17	275,298.08	1,720,256.25
Computer Hardware ,software & Office Equipment	2,862,430.28	1,008,292.93	3,870,723.21
LLDF Modernization - Assests	2,553,253.73	312,239.34	2,865,493.07
Motor Vehicle – Nissan/XTRAIL	**2,398,500.00**	**1,599,000.00**	**3,997,500.00**
Total	**11,314,759.16**	**3,270,293.40**	**14,585,052.56**
Written Down Value	**19,551,597.50**		**16,069,191.60**

02	Investment in Fixed Deposit	2016	2015
	Fixed Deposits	539,855,292.05	31,855,292.05
	Treasury Bill	95,979,345.61	95,441,161.53
	REPO Investments	180,600,000.00	-
		816,434,637.66	**127,296,453.58**

03	Grant given to LA -LGIIP	2016	2015
	Grant given to LA's	1,234,281,467.99	2,841,795,121.45
	Less:Grant amortized 2016	-	(1,607,513,653.46)
		1,234,281,467.99	**1,234,281,467.99**

04	Staff Debtors	2016	2015
	Distress Loan	4,882,506.16	4,098,682.51
	Advance for Board of Commissioners	-	329,400.00
	Festival Advance	19,250.00	20,500.00
	Property Loan	475,053.02	
		5,376,809.18	**5,059,368.52**

05	Debtors	2016	2015
	LLDF(UC,MC,PS)	944,728,866.44	944,012,416.91
	UDLIHP	1,403,917,341.01	1,511,126,201.48
	LGIIP	1,336,893,510.29	1,482,905,605.75
	PCDP	62,201,424.12	66,198,530.41
	N.W.S.&D.B.	7,720,755.22	8,219,130.22
		3,755,461,897.08	**4,012,461,884.77**
	Less - Provision for imparement		
	Balance as at 01st Jan 2016	780,571,909.06	754,129,940.06
	Add - Provision for the year	142,363,847.63	26,441,969.00
	Balance as at 31st December 2016	**922,935,756.69**	**780,571,909.06**
		2,832,526,140.39	**3,231,889,975.71**

6	Loan Interest Receivables	2016	2015
	LLDF	14,714,360.20	23,917,564.30
	UDLIHP	103,269,071.74	92,611,890.63
	PCDP	8,466,173.78	4,680.00
	LGIIP	39,268,965.76	75,757,996.15
	Treasury Interest Receivable - LGIIP	-	-
	Liquidates damages Receivable – LGIIP	1,043,265.04	1,043,265.04
	Additional Interest Receivable - LGIIP	-	-
	Interest Receveble (Current Assets)	37,175,505.31	-
		203,937,341.83	**193,335,396.12**
	Non Performing Loans-LLDF	-	-
	Non Performing Loans-PCDP	-	-
	Non Performing Loans-UDLIHP	-	-
		203,937,341.83	**195,286,932.80**

7	Investment Income Receivable - UDLIHP	2016	2015
	Interest Receivanle Treasury Bill - UDLIHP	-	1,306,001.00
	Interest Receivable on FD - UDLIHP	589,275.95	1,216,741.00
		589,275.95	**2,522,742.00**

8	Cash & Cash Equivelent	2016	2015
	Savings Deposits	199,156,819.98	484,004,042.15
	Cash at bank	(5,751,637.23)	(201,989,105.22)
		193,405,182.75	**282,014,936.93**

9	Retained Earnings	2016	2015
	Balance at the beginning of year	(935,525,787.79)	(939,752,302.09)
	Loss for the year	3,569,412.68	4,226,514.30
		(931,956,375.11)	**(935,525,787.79)**

10	Borrowings from the Treasury	2016	2015
	LLDF	193,231,585.26	215,192,375.25
	UDLIHP	1,724,989,810.44	1,724,989,810.44
	PCDP	61,935,834.56	65,916,940.85
		3,549,802,284.69	3,551,530,832.49
		5,529,959,514.95	**5,557,629,959.03**

11	GOSL Grant -LGIIP	2016	2015
	GOSL Grant - Received	1,102,964,884.09	1,102,964,884.09
	Less:Grant Amortized(2016)	(620,728,025.17)	(710,210,569.15)
		482,236,858.92	**392,754,314.94**

12	Staff Grativity	2016	2015
	Provision B/F	4,609,931.31	2,348,607.37
	Provision for the year	1,694,514.11	566,809.83
		6,304,445.42	2,915,417.20
	Paid during the year	-	-
		6,304,445.42	**2,915,417.20**

13	Govt.Assistance(Capital)-LGIIP	2016	2015
	Assets for LGIIP - Cost	-	7,500,110.62
	Less: Amortization of Gov. Assistance	5,275,731.07	(2,224,379.55)
		5,275,731.07	**5,275,731.07**

14	Interest payables to General Treasury	2016	2015
	Interest payables on UDLIHP	94,084,744.99	21,765,947.75
	Interest payables on PCDP	-	-
	Interest payables on LGIIP	-	-
		94,084,744.99	**21,765,947.75**

15	Provisions & Accrude Expences	2016	2015
	Audit Fees	2,005,813.00	1,645,813.00
	Office Rent	7,800,000.00	7,200,000.00
	Accrude Expenses	414,544.11	42,000.00
		10,220,357.11	**8,887,813.00**

16	Received in Advance	2016	2015
	Advance - LLDF	4,744,746.09	2,662,767.18
	Advance - UDLIHP	7,241,173.20	5,849,410.20
	Advance - LGIIP	11,986,285.02	7,111,408.59
	Advance AC	4,229,404.90	
	Suspence Received AC	22,063,699.27	
	Cash Transfer – LLDF(LGIIP)	1,432,778.30	
		51,698,086.78	**15,623,576.97**

17	Current tax Liability	2016	2015
	Balance as at the beginning of the Year	1,672,776.62	577,715.50
	Add : Provision for theCurrent Year	892,352.00	946,136.00
		2,565,128.62	1,523,851.50
	Less: Payment made during the Year		
	Paid for Year 2014/2015	-	-
	Paid for Year 2015/2016		
	Withholding Tax deducted	-	(404,938.88)
	Balance as at the end the Year	**2,565,128.62**	**1,118,912.62**

18 Interest Income

	2016	2015
LLDF	81,412,991.55	81,136,093.89
UDLIHP	92,489,325.69	71,283,893.05
PCDP	4,813,536.15	4,963,971.00
LGIIP	126,141,925.74	121,478,644.03
NW & DP	776,127.35	823,097.90
	305,633,906.48	**279,685,699.87**

19 Interest Expenses

	2016	2015
LLDF	15,245,415..45	19,926,385.93
UDLIHP	72,318,797.24	95,329,229.05
PCDP	4,863,827.73	4,944,531.00
LGIIP	35,480,616.01	35,515,308.32
	127,908,656.43	**152,715,454.30**

20 **Other Income**

	2016	**2015**
Recived in Suspence		
LLDF	-	-
UDLIHP	-	-
PCDP	4,077,809.94	-
LGIIP	-	-
Liquidated Damages Income		
LLDF	-	-
UDLIHP	-	-
PCDP	-	-
LGIIP	-	167,133.89
Other Income		
LLDF	254,249.32	274,832.12
UDLIHP	-	-
PCDP	-	-
LGIIP	845,720.37	-
	5,177,779.63	**441,966.01**

21 Administrative Expences

Administrative Expences	2016	2015
Staff Salaries	11,323,848.45	11,189,75.92
C.O.L Allowance - LLDF	2,820,480.00	2,948,660.00
Staff bonus	58,000.00	-
Allowance For Chairman.	1,197,325.14	842,832.50
Incentive- UDLIHP	-	74,000.00
Board of Commissioner's Travelling	-	201,880.00
Allowance for Chairman	1,197,325.14	
Allowance For.B.Coms	1,229,850.00	9,000.00
E.P.F.	2,794,205.33	1,656,933.50
E.T.F.	421,337.54	414,233.38
Gratuity expenses	1,694,514.11	566,809.83
Overtime & Holly day Pay	158,593.90	131,563.67
Staff Welfare	257,415.60	165,814.00
Telephone Allowancess	-	35,928.58
Special Allowancess for DO	-	125,787.10
Meeting Expenses	73,814.00	105,771.00
Audit Expenses	-	169,358.33
Postage & Telephone	117,273.55	361,809.17
Stationery / Printing	400,565.61	597,441.96
Vehicle Maintenance	159,807.00	67,055.00
Fuel	213,486.67	204,387.75
Electricity	699,245.25	620,014.12
Security Charges	1,174,650.00	392,341.64
Water Supply	72,303.67	34,215.44
Cleaning service Charges	319,514.96	254,745.00
Maintanance & Equipments	505,078.88	126,583.23
Maintanance & Building	11,655.00	765,647.68
Staff Training	1,318,601.00	268,705.00
Computer Maintance	43,500.00	1,318,576.00
Tax & Rates	101,110.00	
Office rent	600,000.00	101,110.00
Awareness Program	206,500.00	-
Press Notification	505,844.25	-
Equipment Depreciation	75,463.05	75,463.05
Furniture and Fittings Depreciatuin	275,298.08	275,298.08
Computer Hardware ,Software Depreciation	1,008,292.93	1,008,292.93
LLDF Modernization – Assests Depreciation	312,239.34	312,239.34
Motor Vehicle Depreciation	1,599,000.00	1,599,000.00
Legal Expenses	27,000.00	-
Bank Charges	-	13,053.73
Development Ass. Traveling	889,472.84	820,664.87
P.A.Y.E`	56,850.00	-
Other Expencess	13,294.00	-
	33,932,782.29	**27,851,969.80**

22	Net Grant amortization	2016	2015
	Grant Amortized-Expenses(Income Statement Debit)	-	239,184,673.03
	Grant Amortized-Revenue(Income Statement Credit)	(54,773,440.00)	(203,301,671.33)
		(54,773,440.00)	**89,883,001.70**

23	Financial Income	2016	2015
	Interest on Treasury Bill		
	LLDF	1,178,539.47	914,363.75
	UDLIHP	-	2,371,411.24
	PCDP	-	-
	LGIIP	1,790,531.75	889,279.21
	Interest on REPO		
	LLDF	17,691,248.05	708,424.47
	UDLIHP	7,053,711.80	1,155,846.31
	LGIIP	21,884,207.64	1,506,225.92
	Interest on Savings Deposits		
	LLDF	1,007,472.89	774,739.57
	UDLIHP	216,462.67	815,708.37
	PCDP	-	-
	LGIIP	469,977.78	1,171,952.12
	Interest on Fixed Deposits		
	LLDF	-	11,398,436.67
	UDLIHP	1,336,652.87	138,630.14
	PCDP	-	-
	LGIIP	-	92,351.35
		52,628,804.92	**21,937,368.12**

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 2016 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 2016 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 2016 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