

Local Loans and Development Fund – 2019

The audit of the financial statements of Local Loans and Development Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No.19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Local Loans and Development Fund, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Accounting Standards (SLAuSs). My responsibilities, under those standards are further described in Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Fund.

1.4 Scope of Audit

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance,

but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Local Loans and Development Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or specific directions issued by the Board of Control of the Local Loans and Development Fund;
- Whether the Fund has performed according to the powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.6 Non- compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non- compliance	Management Comment	Recommendation
Circular No. PED 1/2015 of 25 December 2015	A sum of Rs.700,00 had been paid, as a sum of Rs.17,500 each per month from November 2017 to June 2019 to two female Assistant Directors who are employed in posts that are not entitled for transport allowances without a proper approval.	The relevant payment had been made by the Board of Commission, by the Board Paper No.BP/OTH/63/2017 by way of approving on 22 February 2018. However, as indicated by the Government Audit in the year 2018, this payment had been defaulted by the Board of Commission, held on 01 July 2019, from 01 July 2019.	Should be complied with the Circulars.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs.69,222,613 and the corresponding profit in the preceding year amounted to Rs.32,601,529. Therefore an improvement amounting to Rs.36,621,084 of the financial result was observed. The reason for this improvement is mainly the decrease of the Grant Amortization Value by a sum of Rs.34,388,439 or by 18.29 per cent.

2.2 Trend Analysis of Major Income and Expenditure Items

Main Source of Income/ Expenditure	2019	2018	Variance	Variance as a Percentage
	Rs.	Rs.	Rs.	(%)
Interest Income	266,181,649	400,599,838	(134,418,189)	(33.6)
Interest Income on Loans and Advances	266,181,649	272,766,611	(6,584,963)	(2.4)
Other Operational Income	133,929,246	2,221,055	131,708,191	5930.0
Interest Expenditure	153,588,013	187,976,452	(34,388,439)	(18.3)
Net Amortization	153,588,013	187,976,452	(34,388,439)	(18.3)
Loan Impairment	4,687,918	4,583,799	104,119	2.3

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) A permanent Officer had not been appointed as the Director of the Fund as per the Scheme of Recruitment approved by the Department of Management Services on 08 April 2010 and the Scheme of Recruitment had not been revised in a manner that a Director could be recruited on Secondary Basis. As such, maintaining that post as an Acting Post continuously made an adverse effect towards the performance of the Fund.	The current positing in this regard had been furnished to the Board of Commission on 15 June 2020 and, it had been instructed to fill this vacancy after the end of the Parliamentary Elections and, it was proposed for the current Acting Director to act in that post.	Vacancies should be filled on the attachment in the Acting posts in long- term would be making an adverse effect towards the performance of the Institution.

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| <p>(b) An Officer employed in the Accountants' Service had been appointed for acting/ for the execution of duties in the post of the Director of the Institution, by the then Secretary to the relevant Ministry without a proper approval of the Board of Commission, contrary to Section 03 of the Local Loans and Development Ordinance No.22 of 1916, as amended by the Local Loans and Development (Amendment) Act No.24 of 1993. Moreover, a total sum of Rs.1,244,905 had been paid for that Officer in the years 2015 and 2016 as a sum of Rs.382,056 as Acting Salaries, a sum of Rs.522,000 as transport allowances and a sum of Rs.340,849 as fuel allowances.</p> | <p>A Letter of Demand was sent on 12 December 2019 related to the recovery of that money and, finally, a Letter of Reminder as well was referred with the initial of the Secretary to the Ministry of Public Administration on 07 February 2020. The reply furnished by an officer of the Accountants' Service was furnished to the Board of Commission and, there, it was proposed to call that Officer to the Meeting of the Board of Commission.</p> | <p>Action should be taken to recover the overpaid money.</p> |
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3.2 Operational Inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
<p>(a) Even though 33 Loan Projects of which their total value being a sum of Rs.1,916,490,000 by the Fund in the year 2019 and even though it had been initiated to issue 05 Loan Projects out of them of which their total value being a sum of Rs.244,800,000, only a sum of Rs.75,375,942 of it or 30.79 per cent had been issued by the end of the year.</p>	<p>The issuing of loans of all projects is being carried out on the Work Done Value and on the Invoice Value during a purchase, as per the Loan Policy Statement approved by the Board of Commission. As such, the total loan is being issued and, the loans are issued in parts based on the progress of the project. Moreover, the delay occurred due to being compelled to obtain the approval of the Department of National Budget in terms of the National Budget Circular No.03/2018 for the purchase of machine and equipment had affected towards the payment of loans. Further, delays in the</p>	<p>Action should be taken to issue loans without a delay after the approving of loans.</p>

Tender Procedure in the Local Government Institutions could be indicated.

The Management is discussing to make the issuing of loans efficient by revising the Loan Policy Statement, in the future.

(b) Even though 124 loans had been approved by the Fund from the year 2014 to the year 2019, 31 per cent of it or 38 loans had not been issued.

Related to the above (a) Reply.

Action should be taken to issue the approved loans expeditiously on the Key Function of the Fund being providing loans to the Local Government Institutions.

(c) Loans of 18 Projects of which their total value being a sum of Rs.419,177,427 as at 31 December 2019 had been stated as Non-Performing Loans and the non-payment period of those loans was ranging from 2 ½ years to 2 years. Further, even though loans amounting to Rs.260,624,776 had been restructured, sufficient action had not been taken to recover loans amounting to Rs.158,552,651.

As per your indication, even though a sum of Rs.150.8 million had been provided to Local Government Institutions by other projects without the supervision of the Fund, the responsibility of the payment of loans to the Treasury has been entrusted to the Local Loans and Development Fund. However, it had been directly intervened for the recovery of the outstanding loans and, outstanding loans amounting to Rs.1,400 million in the year 2014 had been decreased to a sum of Rs.158.5 million in the year 2019. Action is being taken for the recovery of those outstanding loans with the intervention and supervision of the Board of Commission.

3.3 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
Advances amounting to Rs.200,000 had been paid without guarantee securities for preparing Handbooks for the Fund by receiving quotations under the Shopping Method without conducting a Study on the need of a Handbook and without prescribing the intended targets and standards. A sum of Rs.100,000 or, 50 per cent of the amount remains to be payable, had been paid under the covering approval of the Board of Control without a quantitative and qualitative evaluation of the Handbooks.	Procurement activities would be carried out as per the Procurement Circular, in the future.	Should be complied with the Procurement Circular.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
The Fund had not been aware of the functions under its scope relating to the year under review in terms of the Agenda 2030 of the United Nations on Sustainable Development Goals. As such, the Indicators for measuring of the objectives and targets of Sustainable Development had not been identified.	Sustainable Development Goals relating to the operation of the Institution had been selected and, they had been connected with the Annual Activities. Sustainable Development Goals and the related activities had been stated in the Annual Action Plan.	I would refer the attention of the Management to identify the Sustainable Development Goals and to take action in a manner that the responsibility is entrusted to the specific Officers.