**Local Loans and Development Fund - 2024**
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## 1. Financial Statements

### 1.1 Qualified Opinion

The audit of the financial statements of the Local Loans and Development Fund for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 the Finance Act, No.38 of 1971. My comments and observations which I consider should be reported in Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2024, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### 1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those Standards are further described in the 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 qualified 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 Public Sector Accounting Standards and for such internal control as management determines 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 intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-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 of the Fund.

## 1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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 audit 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 judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement 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 audit 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 audit 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 is 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 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 special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its 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 Audit Observations on the Preparation of Financial Statements**

**1.5.1 Non-compliance with Sri Lanka Accounting Standards**

| | Non-compliance with reference to the relevant Standard | Management's Comments | Recommendation |
|---|---|---|---|
| (a) | According to Sri Lanka Accounting Standard 07, disclosures should be made in the financial statements relating to the criteria used to determine whether an impairment loss has occurred. However, the criteria used to determine the impairment of individual loan balances of Rs.1,354,421,556 have not been disclosed in the financial statements. | The management has decided the percentage of impairment of individual loan balances of over Rs.10 million as 67.76 per cent as per the Commissioner Board Paper No. BP/OTH/47/2025. The management has increased this percentage taking into consideration the ability of recovery of individual loans and the time taken therefor. | As specified by Accounting Standards, the criteria used to determine impairment losses should be disclosed. |
| (b) | According to Sri Lanka Accounting Standard 24, the emoluments of the top management should be disclosed under transactions with related parties in the financial statements. Nevertheless, benefits of Rs.2,476,950 paid in the year under review to the Director of the institute, had not been disclosed in the financial statements. | It is agreed. Action will be taken in accordance with Sri Lanka Accounting Standard 24. | The emoluments of the top management should be disclosed in the financial statements. |

### 1.5.2 Accounting Deficiencies

| | Audit Observation | Management's Comments | Recommendation |
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| (a) | The loan instalments of the Weligama Urban Council had not been accurately computed. As such, a loan interest of Rs.11,665,308 recoverable to the institute from the year 2010 relating thereto, had not been accurately accounted for. | It is accepted that the loan interest of Rs 11,665,308 had not been accurately accounted for in the financial statements. Action is presently being taken with the Council to recover this amount. | The relevant loan interest should be accurately recorded in books while taking measures to recover same without delay. |
| (b) | Payments had been made on 10 January 2025 for the life insurance premium of Rs.2,041,561 for the employees so as to cover the period from 01 October 2024 up to 30 September 2025. However, the insurance expense of Rs. 510,390 relating to the year under review had not been accounted as accrued expenses. | This audit paragraph has indicated that the amount payable to the insurance company as at 31 December 2024, had not been shown as accrued expenses in accounts. | Financial statements should be prepared by identifying the relevant expenses on accrual basis. |
| (c) | According to the comprehensive income statement, the impairment loss in the year under review had been indicated as Rs.64,720,996. However, in the computation of income tax, a sum of Rs.66,391,129 had been entered as the impairment loss, thus under computing the income tax of the year under review by Rs. 501,040. | It is accepted that in the computation of impairment income tax, a sum of Rs.66,391,129 had been erroneously entered as impairment tax. | Income tax should be accurately computed and accounted for. |
| (d) | In the computation of deferred tax, the tax liability has been overstated by Rs.670,247 due to understating the tax base for property, plant and equipment as Rs.3,692,574. | Agreed with the matters pointed out. According to our computation, the tax base for the property, plant and equipment mentioned herein, is Rs.7,961,205. | -do- |
| (e) | Instead of the loss of Rs.28,523,417 computed in prior years which can be waived in tax computation, the profit of Rs.120,953,238 adjusted for tax has | Agreed with the matters pointed out. | -do- |

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| | been applied. As such, the income tax payable in the year under review, had been under computed by Rs.27,728,946. Even though a deferred tax asset of Rs.27,728,946 had been computed for a tax loss of Rs.92,429,821 brought forward, a deferred tax asset could not be identified as a tax loss does not exist for the year 2024. | | |
| (f) | Even though a sum of Rs.25,118,889 had been shown as the tax expenditure for the year under review in the schedules submitted along with the financial statements, the tax expenditure has been shown as Rs.35,862,193 in the comprehensive income statement. Moreover, even though the tax liability of the year under review had been shown as Rs.40,692,797 in the statement of financial position, a sum of Rs.61,670,684 had been shown as the tax liability in the schedules relating thereto. | Agreed with the matters pointed out. | -do- |
| (g) | The vehicle presently used by the institute received in the year 2023 from the Ministry of Public Administration, Provincial Councils and Local Government, had not been valued and shown in the financial statements. | As the vehicle had not been valued at the time of preparing accounts, it has been disclosed as a note. The valuation of vehicles has been assigned to an institution and once obtaining the valuation, it will be included in accounts. | The vehicle should be valued and recorded in books. |

### 1.5.3 Unreconciled Control Accounts or Records

| | Item | Value as per Financial Statements Rs. | Value as per Corresponding Records Rs. | Difference Rs. | Management's Comments | Recommendation |
|---|---|---|---|---|---|---|
| (a) | Loans and balances of interest in suspense | 1,899,658,029 | 1,869,924,288 | 29,733,741 | It is agreed. An external professional has been assigned to | The details shown in the ledger should be reconciled |

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| | | | | | look into the reasons for the differences between individual loan balances and accounts and, necessary steps will be taken to adjust these differences accordingly. | with those in the schedules. |
| (b) | Loan balances receivable | 50,694,209 | 60,599,173 (according to letters of confirmation of balances) | 10,856,674 | It is agreed that the loan balances in the letters on confirmation of loan balances submitted by the Kesbewa, Nuwara Gampalatha, Thalawa East, Hingurakgoda and Hali-ela Sabhas do not reconcile with the balances in the loan ledger. Of these, the reasons for the differences in the balances of the Kesbewa, Nuwara Gampalatha and Thalawa | The balances in the loan ledger should be confirmed and necessary adjustments should be made in case of differences. |

East have been found out and the reasons for the differences in the remaining Sabhas are being looked into. It has been noted to rectify accordingly.

**1.6 Accounts Receivable**

| Audit Observation | Management's Comments | Recommendation |
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| In the recovery of loans and advances, action had not been taken up to 31 December 2024 to settle a sum of Rs.4,363,534 recovered in excess relating to the period between the years 2018-2024. | Money received from the year 2018 has been recorded in advance accounts without identifying specifically. Certain amounts in the advance accounts are excess money received by us once the loan has been settled by the local authority. Moreover, the money received in the year 2024 relating to the year 2025 as well has been recorded in these accounts. The said money will be transferred to relevant debtors accounts through journal entries. Money not relevant to the year 2025 has been identified at present and action is taken to transfer through relevant journal entries or to return relevant money to the relevant local authority. | In the recovery of loans and advances, action should be taken to settle money recovered in excess without delay. |

**1.7 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.**

| Reference to Laws, Rules, Regulations etc. | Non-compliance | Management's Comments | Recommendation |
|---|---|---|---|
| Paragraph 29:1,2,3 of Chapter XLVIII of Volume II of the Establishments Code of the | Allowances totalling Rs.1,244,905 had been paid in the years 2015 and 2016 to an officer acting in the post of Director of the institute contrary to Sections | The audit information pointed out by you is accurate and our institute has taken the following measures. After having been pointed out by Audit, the recommendation of the | Disciplinary action should be taken against relevant parties as per provisions in the Establishments Code. |

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| Democratic Socialist Republic of Sri Lanka | 12:5:4 and 12:8 of Chapter VII of the Establishments Code and Section 5 of Public Enterprises Circular No.PED/50 dated 28 July 2008 and Section 3.7 of Public Enterprises Circular No.PED 1/2015 dated 25 May 2015. After having been pointed out by Audit, he has repaid a sum of Rs.901,556 thereof on 02 June 2023. However, no formal disciplinary inquiry had been held so far. | report submitted after holding the preliminary inquiry was, in case such a payment has been made, to recover same. The relevant Accountant has paid back a sum of Rs.901,550 on 02 June 2023 to our institute. All information required therefor has been forwarded on 07 December 2023 to the Public Service Commission through the Ministry of Public Administration. |

## 2. Financial Review

### 2.1 Financial Results

The operations of the year under review resulted in a profit of Rs. 98,403,591as compared with the corresponding profit of Rs. 57,579,949 in the preceding year, thus observing an improvement of Rs. 40,823,642 in the financial result. The income from other operations in the year under review has decreased by Rs.53,786,332 and the decrease in the impairment loss by Rs. 102,840,683 had mainly attributed to this improvement.

## 3. Operational Review

### 3.1 Management Inefficiencies

| Audit Observation | Management's Comments | Recommendation |
|---|---|---|
| A sum of Rs.1,385,984 had been spent for the function of awarding letters of loan grants held in the year under review and even though a sum of Rs. 942,307 had been spent for publishing advertisements in newspapers, only 100 persons had participated. | The intention of publishing newspaper advertisements on the day of the function was making the other local authorities except for the local authorities receiving these loan grants, aware of reducing the expenses on electricity in local authorities and persuading to grant concessionary loans for projects on providing solutions to the electricity crisis faced as a nation. Moreover, it was expected to obtain financial and | Expenditure should be managed effectively and efficiently and action should be taken to maximize participation for the functions of this nature. |

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| | technical assistance for our programme from the Asian Development Bank, World Bank, KOICA and JAICA institutions to expand the revolving fund of the Fund. As such, this function was organized to give a positive idea to all those institutions by working together with our institute. | |

### 3.2 Operational Inefficiencies

| Audit Observation | Management's Comments | Recommendation |
|---|---|---|
| Of the loan of Rs.176 million and loan interest of Rs.143 million outstanding as at 31 December 2023, only sums of Rs.82 million and Rs.57 million had been recovered in the year under review respectively and, of the loan of Rs.860 million and the loan interest of Rs.290 million recoverable in the year under review, only sums of Rs.367 million and Rs.154 million had been recovered respectively in the year under review. As such, the progress of recovery of loans and interest was in a low level between 40 per cent and 53 per cent. | Agreed with the observation. Even though the recovery of loans in other projects indicated an optimum rate in the year 2024, the overall rate of recovery of loans has taken a low rate due to the low level of recovery of loans in the LLDF-MC and LLDF-UC projects. Due to the long term issues in the recovery of loans relating to local authorities, the percentage of recovery of the said loans and interest has taken the low rates of 43 % and 53 % respectively. As necessary action has been taken on the recovery of these loans, it will be possible to bring these rates to a better level in future. | Action should be taken to duly recover the loans and interest instalments recoverable relating to the year. |

### 3.3 Idle or Underutilized Property, Plant and Equipment

| Audit Observation | Management's Comments | Recommendation |
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| (a) The financial management, debt management and general modular system valued at Rs.2,938,000 set up in the year 2020, was not in a condition to be used for relevant objectives | Agreed with the matters pointed out and, according to recommendations of a report obtained from an expert of the University of Sri Jayewardenepura, it has been reported to remove this software | An effective software system to suit the requirements should be purchased and used. Inquiries to identify the parties responsible for |

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| by the end of the year under review. | system completely and to introduce a new software system. As such, no maintenance agreements have been entered into for this system after 31 December 2022 and no payments have been made therefor. As per the above report, steps have been taken to set up a new computer system. | the loss occurred relating to the establishment of this system, should be commenced speedily. |
| (b)The mobile phone application developed by spending a sum of Rs.2,437,420 in the preceding year with the intention of making the operations of the Fund, was not in function even by the year under review. | This application has been designed to function with the existing computer system. The said system is not in function completely as accurate data required by the management have not been received and not matched, through the computer system introduced. As a result, this mobile application as well cannot be made use of. As it is mentioned in the technical report called for from an expert lecturer on computers of the University of Sri Jayewardenepura to remove the computer system completely and to introduce a new computer system, bids have been already invited and technical evaluations have been carried out and submitted to the Tender Board of the Ministry. | -do- |