

## **Local Loans and Development Fund**

### **1. Financial Statement**

#### **1.1 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Local Loans and Development Fund had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with the Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the Local Loans and Development Fund as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

#### **1.2 Comments on Financial Statements**

##### **1.2.1 Accounting Policies**

Total outstanding loan balances were recognized in the financial statements as non current debtors. The loan installments which should be settled within one year period had not been shown as current debtors in terms of SLAS 3.

##### **1.2.2 Un reconciled Differences**

The following observations are made.

(a) Following Differences were observed when comparing the notes to the financial statements with schedules.

<b>Item</b>	<b>Amount as per notes</b>	<b>Amount as per schedule</b>	<b>Difference</b>
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	Rs.	Rs.	Rs.
Debtor balance of Pradeshiya Sabhas (Note 2)	402,878,727	403,021,352	142,625
Interest received(Note 5)	22,542,923	22,545,037	2,114

(b) Following Differences were observed in respect of opening balances of 2010.

	As per ledger 2010 Rs.	As per Financial Statements 2010 Rs.	Difference Rs.
<u>Non Current Debtors</u>			
Municipal Councils	98,145,105	94,608,177	3,536,928
Urban Councils	110,214,867	106,464,136	3,750,731
Pradeshia Sabhas	379,441,859	371,404,415	8,037,444
Urban Development Law income Housing Project.	2,270,125,714	2,001,971,658	268,154,057

### 1.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) It was observed that loans amounting to Rs 4,419,202 and Rs.189,725 were due from 22 Pradeshieya Sabhas and 02 Urban Councils respectively for over 30 years and loans amounting to Rs 1,888,755 were due from Valvetithurai Urban Council for over 27 years.
- (b) Out of the receivable accounts balances amounting to Rs.1,950,574,475 from the Urban Development and Low Income Housing Project and Rs.810,973,268 from the Local Government Infrastructure Improvement Project (LGIP), only a sum of Rs.1,152,266,127 or 59% and Rs.91,440,122 or 11% respectively had been confirmed by the respective parties up to 20 May 2011.

### 1.2.4 Provision for the Rent of Office building

The Institution is functioning in a government owned building and 50 % of the rates for the building amounting to Rs.101,110 had been borne by the Institution concerned. In addition , provisions amounting to Rs. 600,000 at Rs.50,000 per month had been made during the year under review to meet the future rentals. Although the provisions had increased up to Rs.4,800,000 as at the end of the year under review, the monthly rental payable had not yet been agreed upon.

### **1.2.5 Idle Funds**

Although a sum of Rs.12 million had been released to Local Loans and Development Fund for specific projects namely Eco Tourism, Improving Rural Roads, Solid Waste Management and Construction of Economic Centers as grants by Treasury, the Local Loans and Development Fund had released only Rs. 4.134 million to the projects. Accordingly, a sum of Rs.7.866 million had remained idle as at the end of the year under review with the Fund.

## **2. Financial and Operating Review**

### **2.1 Financial Results**

According to the Financial statements presented, the operations of the Fund for the year ended 31 December 2010 had resulted in a surplus of Rs. 11,085,041 after tax as compared with corresponding surplus of Rs.13,585,427 for the preceding year after tax thus indicating a decrease of Rs. 2,500,386 in the surplus for the year under review. The deficit of Rs.22,012,308 on the Local government Infrastructure Development Project for the year 2010 had also been included in the above surplus figure of Rs.11,085,041.

### **2.2 Operating Review**

#### **2:2:1 Performance**

##### **(a) Granting Loans**

The key functions of this Fund are providing loans under concessionary interest rates for income generating projects and improving infrastructure facilities of Urban Local Authorities and Pradeshieya Sabhas . The Fund had allocated a sum of Rs.162 million for providing loans to various projects during the year under review and loans amounting to Rs. 126.2 million had been granted during the year 2010.

The following observations are made in this regard.

- (i) A sum of Rs.38.1 million had been granted for the purchase of Machinery and Equipment which had been estimated as Rs.30 million for 10 projects. Therefore a sum of Rs. 8 million had been over disbursed and only 7 projects had been completed. Rest of projects had not been commenced.

- (ii) Although a sum of Rs. 20 million had been allocated for providing loans to construct an office building, library and memorial hall under 5 projects in the year under review, a sum of Rs. 12.5 million had been spent and only one project was completed.
- (iii) A sum of Rs. 20 million had been allocated for 6 projects to construct of weekly fair and Economic centers. The estimated cost for one project was Rs.3 million . A sum of Rs.42.8 million had been disbursed and only 3 projects were completed during the year under review. However a sum of Rs. 35 million had been disbursed to Kelaniya Pradeshiya Sabha for construction of the Kiribathgoda weekly fair.
- (iv) Although a sum of Rs. 35 million estimated for development of rural roads, solid waste management project, construction of water project and other income generated projects, no any loans had been released up to 31 December 2010.

**(b) Recovery of Outstanding Loan Instalments**

Out of the loan installments due from Local Authorities amounting to Rs. 28.8 million , as at 01 January 2010 only a sum of Rs.14.3 million had been recovered during the year under review.

The following observations are made in this regard.

- (i) The recovery of Loan installments due as at 01 January 2010 from Urban Councils during the year under review was at a very Low level.( i.e.20 %) The Loan recovery rate from Municipal Councils and Pradeshiya Sabhas were 98 % and 53% respectively. As such, the overall loan recovery rate was 45.6 % for the year under review.
- (ii) Out of loans amounting to Rs.7,850,000 and Rs.2,012,000 granted to the Urban Council- Panadura and the Urban Council-Valvetithurai a sum of Rs.4,850,000 and Rs.1,888,755 respectively had been outstanding as at 31 December 2010.
- (iii) Not a single installment had been recovered out of the loan amounting to Rs. 3 million granted to the Pradeshiya Sabha- Hakmana .

- (iv) Out of the Loan amounting to Rs.1,150,000 granted to the Pradeshieya Sabha-Damana in the year 2003 for the development of Hingurana weekly fair, only an installment of Rs. 40,537 had been recovered. No installments had been recovered thereafter.
- (v) Out of the Loan amounting to Rs.855,000 granted to the Pradeshieya Sabha , Karachi in the year 1983, an installment amounting to Rs.11,285 and an interest amounting to Rs.486,677 had been recovered up to the year 1999. No installments had been recovered thereafter.
- (vi) Out of the loan amounting to Rs.940,000 granted to the Pradeshieya Sabha, Waligamam in the year 1982, installments amounting to Rs.376,000 only had been recovered.
- (vii) Out of the loan amounting to Rs.1,791,500 granted to the Pradeshieya Sabha, Medagama in the year 1986 and 1987, installments amounting to Rs. 220,102 only had been recovered.
- (viii) Not a single installment had been recovered in respect of loans amounting to Rs.570,077,446 and Rs. 72,922,475 granted by the Urban Development and Low Income Housing Project and the Perennial Crops Development Project respectively to Local Authorities.

(c) **Recovery of Outstanding Loan Interest**

The outstanding loan interest recovered during the year 2010 amounted to Rs.4.8 million and the loan interest due as at 31 December of the year under review amounted to Rs.18.5 million. Details of age analysis of outstanding interest are given below.

Period -----	Amount of Outstanding Loan Interest -----
Over 5 years	10,477,963
Over 1 year and less than 5 years	3,206,253
Less than 1 year	<u>4,790,559</u>
Total	18,474,775 =====

The following matters were observed in respect of the recoverable loan interest as shown above

- (i) The amounts of loan granted to the Urban councils of Panadura , Ampara and Ambalangoda were Rs.7,850,000, Rs.4,800,000 and Rs.3,360,000 respectively and the loan interest due therefrom up to the year 2010 amounted to Rs.6,356,000, Rs.1,172,911 and Rs.2,242,320 respectively.
- (ii) The details of outstanding loan interest on the loans granted to Pradeshieya Sabhas are shown below.

Paradeshieya Sabha	Amount of Loans Granted	Interest due as at 31.12.2010	Period of outstanding
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	Rs.	Rs.	Rs.
Hakmana	3,000,000	1,131,519	2005-2010
Beruwala	9,900,000	193,696	2010
Beliatta	8,000,000	367,009	2010
Damana	1,150,000	285,015	2006-2010
Embilipitiya	5,122,900	485,762	2008-2010
Medagama	1,791,500	<u>2,399,427</u>	Over 5 years
		<u>4,862,428</u>	

(d) **Recovery of Loan Installments only except Interest**

Although the entire Loan amounting to Rs. 21,576,981 released to 8 local Authorities had been fully recovered, interest amounting to Rs. 81,325 due thereon had not been recovered as at 31 December 2010.

**2.2.2 Local Authorities Infrastructure Development Project**

The following observations are made

- (a) According to the Loan Agreement No.2201 SRI (SF) entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank on 19 January 2006, the implementation of the Component “ B ” of the Local Authorities Infrastructure Development Project is assigned to the Local Loans and Development Fund. Under this, a sum U S \$ 42.6 million (Rs.4,260million) had been allocated to the Local Loans and Development Fund for the improvement of infrastructure of Local Authorities. Although it

had been estimated to release Rs.1,581 million to the project during the year under review, only a sum of Rs.972 million had been released.

- (b) Although a sum of Rs.847,000 had been paid to a private Company for introducing a Computer Software Programme to the Local Loans and Development Fund under this project it was observed that the Programme had not been properly functioned even by 20 May 2011, the date of audit examination.

### **2.2.3 Urban Development Low Income Housing Project**

#### **(a) Urban Council ,Gampola – Shopping complex Project**

According to the agreement, the construction of the shopping complex for Urban Council ,Gampola should be completed on or before 5 September 2003. However it had been completed only on 18 June 2006. Liquidated damages had not been collected. The number of shops constructed were differ from document to document. The estimated cost was Rs. 70 million. However actual disbursement was Rs. 96.3 million. The funding method of over disbursement amounting to Rs. 26.3 million had not been furnished to audit. No any single installment had been paid over five year period lapsed. Arrears of loan installments and interest was Rs.69, 178,585 as at end of year under review.

#### **(b) Dambulla Pradeshiya Sabha – Shopping complex and Bus Stand**

A sum of Rs.106,956,260 had been incurred for construction of the shopping complex and bus stand for the Dambulla Pradeshiya Sabha. The Project Director had been requested from LLDF to recover the this expenditure as loan from 40 installments. However Loan agreement and bills relating to this expenditure had not been furnished to audit. The Chairman of the Dambulla Pradeshiya Sabha had informed to the Project Director to refrain from payment to contractor since the contractor had handed over the project without completing. Although monthly income generated from the project was Rs. 326,650 , expenditure including loan installments was Rs. 1,108,752 According to the investigation report, total arrears of installments and arrears of interest were Rs. 18,191,169 and Rs. 45,281,083 respectively.

(c) **Thissamaharama Pradeshiya Sabha- Shopping Complex Project**

A sum of Rs. 38,251,754 had been incurred for the construction of the shopping complex for Thissamaharama Pradeshiya Sabha. The Project Director had informed to the LLDF to recover the loan from 40 installments from 2005. The loan agreement and bills relating to the payments had not been furnished to audit. Due to weakness in completion of this Complex it could not be used for income generating purpose. Total arrears of installments and arrears of interest were Rs. 9,374,703 and Rs. 18,908,929 respectively

(d) **General Comments**

Following observations are made .

- Agreement copies had not been attached to the relevant project files.
- Although the projects were completed ,they were not in usable condition.
- Although the ownership of building projects were transferred to Pradeshiya Sabhas and ordered to pay loan installments, the buildings were not in usable condition.
- Since the loan installment is higher than the project income , some Council will face a financial crises.
- Adequate security had not been obtained when granting loans. (Eg: Gampola shopping complex project, Dambulla shopping complex and bus stand project, and Thissamaharama shopping complex project.)

**2.2.4 Budgetary Control**

Significant variances were observed between the budgeted and the actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of Management control.

**3. Systems and Controls**

Deficiencies in Systems and Controls observed during the course of 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 control.

- (i) Recovery of outstanding loans and interest
- (ii) Budgetary control