

Local Loans and Development Fund – 2018

1.1 Opinion

The audit of the financial statements of the Local Loans and Development Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income and statement of changes in equity and cash flow statement for the year then ended and notes to the Financial statements and a summary of significant accounting policies, was carried out under my direction in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be 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 to parliament appear in this report.

In my opinion, the financial position of the Fund as at 31 December 2018 and of its comprehensive income and its cash flows for the year then ended give a true and fair view in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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 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 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 Local Loans and Development 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 Local Loans and Development 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 University College.

1.4 Audit Scope (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 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 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 great 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 Company 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 Local Loans and Development Fund has complied with applicable written law, or other general or special directions issued by the Board of Governors of the University College;
- Whether the Local Loans and Development Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Local Loans and Development 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Public Enterprises Circular No. PED 1/2015 of	A sum of Rs. 490,000 had been paid at the rate of Rs. 17,500 per	The relevant payments had been made on the approval of the Board of Commissioners and on the verbal approval of	Should function in compliance with the Circulars. The attention of the

25 December 2015. month without getting the due approval from November 2017 to two Deputy Directors, who were not entitled to obtain transport allowances. the Department of Management Services. These payments were made as the Institution was unable to provide group transport and therefore, if group transport had been provided, the Institution would have been able to save 80 per cent of the total payment that should be incurred by the Institution. Management is focused to take action only in relation to written confirmations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 32,008,297 and the corresponding profit in the preceding year amounted to Rs. 12,915,575. Accordingly, an improvement amounting to Rs. 19,092,722 of the financial result was observed. The major reason for the improvement is the decrease in amortized value of grants by Rs.57,419,467 or by 23.4 per cent.

2.2 Trend Analysis of Major Income and Expenditure Items

Major Source of Income / Expenditure	2018	2018	Variation	Variation as a Percentage (%)
	Rs.	Rs.	Rs.	Rs.
Interest Income	400,599,838	404,872,556	(4,272,718)	(1.1)
Interest Expense	137,858,690	138,318,476	(459,786)	(0.3)
Net Amortization	187,976,452	245,395,919	(57,419,467)	(23.4)
Loan Impairment	4,583,799	(34,762,394)	39,346,193	113.2

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
-----	-----	-----
(a) A permanent officer had not been appointed to the Post of 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 it was possible to appoint a Director on secondary basis. Therefore, holding this Post continuous as an acting post had adversely affected the performance of the institution.	Action is being taken to appoint a regular officer.	Vacancies should be filled since the attachment of officers to posts on long term acting basis would adversely affect the performance of the institution.
(b) In contrary to the Section 03 of the Local Loans and Development Ordinance No.22 of 1916 amended by Local Loans and Development (amendment) Act, No. 24 of 1993 and without obtaining the approval of the Board of Commissioners, an Officer in the Sri Lanka Accountants' Service had been appointed by the former Secretary of the relevant Ministry to act as / to perform duties of the Director of the Fund. Further, a total of Rs. 1,244,905 had been paid to the Officer in the years 2015 and 2016 comprised of Rs. 382,056 as salaries for acting for the Director and Rs. 522,000 for transport allowance and Rs. 340,849 for fuel allowance.	Reminders had also been sent to recover the relevant amounts and the amount payable should be rectified as Rs. 862,849 and it is no longer Rs. 1,244,905.	Action should be taken to recover the amount paid in excess.

3.2 Operational Inefficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
-----	-----	-----
(a) A substantial programme had not been prepared to recover the non-performing loans amounting to Rs.430,152,152 provided through the Fund and projects for 18 projects of the Local Government Institutions.	Discussions had been held directly with the relevant local government institutions for recovering the balances of debtors and action has been taken to recover the loans through restructuring the loan balances.	Short-term as well as long-term procedures should be adopted to regularize the payment of loans when loans are repaid irregularly.
(b) The major function of the Fund is to collect interest through granting loans. However, the total interest income was Rs. 400,599,838 and an adequate level of performance had not been achieved as the sum of Rs. 127,046,108 or 32 per cent out of the aforesaid amount was the interest earned from fixed deposits.	It is anticipated to make the Board of Commissioners aware of the matter and to prepare a procedure required to enhance the operational performance.	The attention of the Management should be focused to function according to plans and to set targets.

3.3 Transactions of Contentious Nature

Audit Observation	Comment of the Management	Recommendation
-----	-----	-----
An amount of Rs. 200,000 had been paid as advance without a security bond for the preparation of manuals for the Fund by getting quotations under the shopping method without studying the need of the financial, administrative and operational manuals and without fixing	Action Manuals of this institution had been prepared on the recommendation of the final report issued in the year 2017 in accordance with the restructuring programme of the institution implemented with effect from the year 2016. Accordingly, this function had been incorporated in to the Action Plan of the institution in the year 2018 and the approval of the Board of Commissioners had been granted at the meeting of the Board held on 15 December 2017 on the recommendations made by the Audit and Management Committee.	Should be complied with the Procurement Circular.

anticipated targets and standards. A sum of Rs. 100,000 which is 50 per cent out of the payable amount had been paid subjected to the covering approval of the Governing Board without evaluating the quantitiveness and the qualitiveness of the manuals.

Accordingly, necessary action has been taken to prepare the manual on finance under the restructuring of the Financial Division of the Institution and to prepare manuals on human resources and administration as included in the Action Plan. A Committee has been appointed by the Chairman on 04 April 2019 for checking the qualitiveness and the quantitiveness of the Manuals and accordingly, action will be taken to obtain the approval after making necessary changes.

3.4 Human Resources Management

Audit Observation

Fifteen (15) Development Officers employed in service by the Fund had been attached to the Offices of Assistant Commissioners situated island wide and a substantial programme had not been prepared to employ them in the service to get the maximum benefit of them to the institution.

Comment of the Management

The duty lists for the relevant Development Officers had been revised and corrected in this year and it is anticipated to arrange a programme to regulate them in the future.

Recommendation

The attention of the Management is focussed to duly assign duties in order to accomplish the performance.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Observation

In terms of “the 2030 Agenda for Sustainable Development, adopted by all Member States of the United Nations” the Fund had not been aware of the functions that come under its purview. Therefore, indexes for measuring the sustainable developmental goals and targets had not been identified.

Comment of the Management

Sustainable development goals had been included in the Action Plan of the year 2019.

Recommendation

The attention of the Management is focussed to identify sustainable development goals and to function in a way that responsibilities are assigned to defined officers.