

## **Local Loan and Development Fund - 2023**

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### **1. Financial Statements**

#### **1.1 Disclaimer of Opinion**

The audit of the financial statements of the Local Loan and Development Fund for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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.

I do not express an opinion on the accompanying financial statements of the Local Loan and Development Fund. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### **1.2 Basis for Disclaimer of Opinion**

I do not express an opinion 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 disclaimer of 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 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 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 Responsibility for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Fund's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

## 1.5 Audit Observations on the preparation of Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) The value of the mobile app software developed with the aim of making the institute's operations efficient was Rs. 2,437,425 which had been presented under computer hardware in the statement of financial position without classifying as intangible assets as per Sri Lanka Accounting Standard 01.	Accepted. The actions will be taken to correct the relevant errors in the accounts of the year 2024.	Financial statements should be prepared and presented as prescribed by accounting standards.
(b) Since the cash flow statement had not been prepared in accordance with Sri Lanka Accounting Standard 07, the cash inflow under operating activities was understated by Rs.226,560,800, the cash inflow under investing activities was overstated by Rs.130,126,748 and, the cash outflow under financial activities was understated by Rs.96,425,733.	-Do-	-Do-
(c) Due to the differences of Rs.196,097,689 and Rs.227,896,243 between the loan balances used for calculating the impairment value as per Sri Lanka Financial Reporting Standard 09 and the loan balances included in the financial statements in 2021 and 2022, the audit was unable to confirm the accuracy of the restated financial statements, which included an impairment gain of Rs.230,284,678 and an impairment loss of Rs.761,798,206 calculated respectively for the years 2021 and 2022.	-Do-	-Do-
(d) Although the key management personnel compensation should be disclosed under related party transactions in the financial statements as	Agreed. Action will be taken in accordance with	-Do-

per Sri Lanka Accounting Standard 24, a sum of Rs.1,179,488 paid to the former acting director and the current director during the year under review had not been disclosed in the financial statements.

Sri Lanka Accounting Standard 24.

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| (e) | Although the criteria used to determine that an impairment loss has occurred should be disclosed as per Sri Lanka Financial Reporting Standard 07, no such disclosure was made in the financial statements. | Agreed. When preparing the accounts for the year 2024, steps will be taken to disclose how the impairment loss is determined according to Sri Lanka Financial Reporting Standard 07. | -Do- |
| (f) | Interest receivable amounting to Rs.76,582,323 had been shown under other assets without being added to amortized cost as per Sri Lanka Financial Reporting Standard 09.                                    | Agreed. The error will be corrected in 2024.   | -Do- |

### 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) During the year under review, deduction of balances in four interest in suspense accounts by Rs.59,718,232 and increasing the balances in two interest in suspense accounts by Rs.1,607,963 and adjusting the net result to the Accumulated Fund had been made, but related evidence for those adjustments was not submitted to the audit.	Agreed.	Explanations for all adjustments should be submitted to the audit.
(b) Due to the failure to correct the prior year error of over-stating the fixed deposit interest income, the fixed deposit interest had been understated by Rs.14,015,293 in the year under review.	Agreed. The correct income will be accounted for from the next year onwards.	Accounting should be done correctly.
(c) As per the calculations by the audit the income tax expense for the year under review was Rs.51,270,726, though it was shown as Rs.36,688,054 in the statement of comprehensive income, the income tax expense had been understated by Rs. 14,582,672.	Agreed.	-Do-
(d) Though the advance income tax paid on investment income was Rs. 7,021,065 during the	Agreed.	-Do-

year under review, out of which Rs.2,190,461 had been deducted when paying income tax for the previous year and the balance amount of Rs.4,830,604 had been stated under other assets. As a result, the amount of income tax payable and other assets had been overstated by Rs.4,830,604.

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| (e) | Though the deferred tax liability as at 31st December of the year under review was Rs.326,265 as per the calculations by the audit, Rs.7,881,953 had been accounted for as a deferred tax asset. As a result deferred tax expense, which should be accounted as Rs.7,530,191, had been shown as deferred tax income of Rs.25,496 in the financial statements. | Agreed.   | -Do- |
| (f) | Although the depreciation of computer hardware and equipment purchased at a cost of Rs.7,736,650 during the year was Rs.1,407,877, it had been overstated by Rs.4,004,699 and accounted as Rs.5,412,576.  | Accepted. It will be corrected through journal entries. | -Do- |
| (g) | As per the calculations by the audit, although the grant amortization income for the assets obtained from the grants of the United Nations Development Fund was Rs.2,397,639, it had been shown as Rs.6,397,057 in the financial statements, hence the other operating income had been overstated by Rs.3,999,418   | Agreed.   | -Do- |

### 1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
(a) Sum of capital balance and interest in suspense accounts	1,472,085,856	1,444,252,401	27,833,455	Agreed. difference currently fixed.	The Ledger is and balances should be reconciled.

(b)	Debtor Balances	443,986,105 (as per fund)	251,435,722 (as per accounts in local authorities)	192,550,383	It has been decided to charge the installment and interest related to the loan amount on the basis of being charged the arrears interest later on that date during the restructuring of the loan amount. This interest amount had been recorded in our suspense accounts.	Proper coordination with the local authorities should be done to settle the discrepancies in the balances.
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#### 1.5.4 Inappropriate Estimation

##### Audit Observation

Hence the value of loans and receivables used for the calculation of impairment for the year under review was greater than the balances in the age analysis report by Rs.770,172,169, the accuracy of the impairment loss amounting to Rs.167,561,679 was not confirmed during the audit.

##### Management Comment

Accepted.

##### Recommendation

The balances shown in the ledger accounts, the schedule balances and the balances used for impairment should not be contradicted to each other.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Receivables

##### Audit Observation

(a) As on December 31, 2023, the outstanding loan balance was Rs.670,289,991 which had been in arrears from 01 year to 34 years.

(b) Although it had been reported to the Auditor General that the loan balances of the local government authorities would be confirmed at the end of the year, 16 balance confirmation letters amounting to Rs.58,788,239 were not submitted, as at December 31, 2023.

##### Management Comment

No comments were given.

Letters were sent to 194 councils for balance verification, out of which 178 councils have confirmed the balances. The balances of 16 councils were not confirmed.

##### Recommendation

Debt recovery should be done.

All the balances should be confirmed.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.57,579,949 and the corresponding restated loss in the preceding year amounted to Rs.528,948,635. Therefore an improvement amounting to Rs.586,528,584 of the financial result was observed. This growth was mainly due to the reduction of impairment loss by Rs.594,236,527 compared to the previous year and the increase in operating income by Rs.22,263,529.

## 3. Operational Review

### 3.1 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although it was planned in the annual action plan to approve new loans worth Rs.250 million in the year under review, only Rs.134.4 million had been approved for 07 projects. Accordingly, the progress was 53.76 percent.	No comments were made.	Actions should be taken as planned and plans should be prepared as much as realistic.
(b) As per the annual action plan for the year under review, though it was planned to disburse Rs.750 million, only Rs.388.96 million had been issued. Accordingly, the loan disbursement progress was 51.8 percent.	No comments were made.	-Do-
(c) Advance account balances outstanding from 2017 to 2023 amounting to Rs.3.5 million had not been settled during the year under review.	No comments were made.	Arrangements should be made to settle outstanding advance account balances.

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

Audit Observation	Management Comment	Recommendation
Although a sum of Rs.2,938,000 had been paid to install a computer software that covers 03 modules and further Rs.1,762,800 had been paid as annual maintenance fees for 03 years from the year 2020, apart from the credit management system, the financial management system and the common module could not be implemented using this software.	As there is currently a deficiency in the computer system, a technical evaluation committee has been appointed to procure and purchase a new computer system and the procurement documents are currently being prepared by that committee.	Actions should be taken to achieve intended purpose of the computer system.