

**1. Financial Statements**

**1.1 Opinion**

The audit of the financial statements of the People's Leasing Havelock Properties Limited (“ the Company”) for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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. My comments and observations which I consider should be report to Parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Companyas at 31 March 2023, and of 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 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 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

## 1.4 Audit Scope

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 skepticism 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 Company'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 Company'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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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 Internal Control over the preparation of financial statements.**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Interest computation/ an amortization schedule on bank borrowings from National Development Bank (NDB) had not been maintained by the company as per SLFRS 09.	Noted. We will maintain amortization schedule for the NDB borrowings and calculate interest expense as per the effective interest rate.	Take necessary actions to ensure the compliance with Sri Lanka Accounting Standards.

## **1.6 Accounts Receivable & Payable**

### **1.6.1 Payables**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Payable to a contractor amounting to Rs. 246,579 had been existed with no transactions for more than one year. Further, above balance has neither been settled nor any additions have been made.	This amount was balance amount payable to the main contractor for the construction of the building. We will make sure to settle this amount to the contractor.	Take necessary actions to settle the payments without any further delay.

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review amounted to a profit before tax of Rs. 228,468,694 and the corresponding profit in the preceding year amounted to Rs. 101,720,800. Therefore, an improvement amounting to Rs. 126,747,894 of the financial result was observed. The reason for the improvement is the fair value gain on investment property amounting to Rs. 300,000,000 despite the increase in finance expense amounting to Rs. 185,727,046.

## 2.2 Trend Analysis of major Income and Expenditure items

2.2.1 The following table summarizes the financial results of the Company in the year under review and the preceding four years period.

Year	2022/2023	2021/2022	2020/2021	2019/2020	2018/2019
Revenue (Rs.)	243,940,282	218,497,787	205,376,300	221,305,833	221,396,938
% of Increase / (Decrease) compared to the preceding year	11.64	6.39	(7.20)	(0.04)	
Direct operating expenses (Rs.)	24,075,352	15,213,270	12,529,047	16,335,005	16,341,722
% of Increase / (Decrease) compared to the preceding year	58.25	21.42	(23.30)	(0.04)	
Profit Before Tax (Rs.)	228,468,694	101,720,800	80,867,120	50,316,645	41,268,022
% of Increase / (Decrease) compared to the preceding year	124.6	25.79	60.72	21.93	(89.88)

2.2.2 Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance Amount Increase/ (Decrease) (Rs.)	Variance %	Reason for the variance
Revenue	25,442,495	11.64	The monthly rent paid by People's Insurance PLC has been increased during the financial year as per the rent agreement.
Finance expenses	185,727,046	191.83	The company's borrowings consist from variable interest serving loans. Central Bank of Sri Lanka (CBSL) increased its policy rates several times during the financial year, resulting in an increase in the country interest rates. Therefore, interest expense increased by 191.83 per cent during the financial year.
Direct operating expenses	8,862,082	58.25	Direct operating expenses increased due to the increase in building maintenance expenses and Social Security Contribution Levy (SSCL) expenses during the financial year.
Administrative expenses	4,283,678	90.24	Administrative expenses increased due to the increase instamp duty expenses during the financial year.

### 2.3 Ratio Analysis

According to the information made available, certain important ratios of the company for the year under review and the preceding year are given below.

<b>Description</b>	<b>2022/2023</b>	<b>2021/2022</b>
Gross Profit Ratio	90.13%	93.04%
Net Profit Ratio	74.93%	46.55%
Return on Equity (ROE)	11.98%	7.57%
Return on Assets (ROA)	6.13%	3.83%
Current Ratio	0.16	0.18
Debt to Equity Ratio	0.96	0.98