

1.1 Opinion

The audit of the financial statements of the People's Leasing and Finance PLC ("Company") and the Consolidated Financial Statements of the company and its Subsidiaries ("Group") for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 and the statement of comprehensive income, statement of profit and loss, statement of changes in equity and statement of cash flow 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 of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2020, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Auditor's Responsibility 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 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 Group'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 Group'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 Group 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 Financial Statements

1.5.1 Accounting Policies

Audit Issue

Management Comment

Recommendation

1. Assessing the time/period to realize the property

An adequate evidence was not observed to justify the estimated time/period taken to realize the security used as collateral to recover the outstanding of individually significant customer. Though, the management considered to realize securities within one or two years, it was not observed positive correspondence to assume legal clearance for this or the company has not taken any action to realize the security within one or two years. Further, it shows that the time/period to realize the property varies based on the value of security, quality of the security as well.

Currently the Company is using security valuation method for evaluating individual impairment assessment due to unavailability of recent sufficient cash flows from customer. It becomes difficult to predict the future cash flows properly.

It is recommended to management to perform comprehensive evaluation over timing of realization of securities.

Most of contracts are handing by recoveries department in head office and under legal procedures. The above estimations (time /Period) based on estimations prepared by recoveries department according to their experience and professional judgments.

2. Following matters were noted in relation to Factoring Process,

- A comprehensive documented policy is not available to identify customers with higher credit risk and impairment there on.
- A system report with adequate customer details and payment details cannot be generated from the system for impairment purpose.

The management has developed a comprehensive policy document approved by the Board of Directors in the month of August 2020. The company is in the process of developing a system for the impairment before the year end. For collective factoring impairment, we have used industry data until the company has own data for the impairment calculation.

Need to develop a system for the impairment purpose. A Comprehensive collective impairment model should be developed by using company own data and information.

1.5.2 Internal Control over the preparation of financial statements

Audit Issue	Management Comment	Recommendation
<p>As per the current practice of the Company, the impairment process is a manual exercise. In this process, management compiles several internal reports to generate such required data.</p> <p>Further, excessive manual workaround and amalgamation of several reports into a single platform could lead to omissions, misstatements and human errors.</p>	<p>Management noted the above issue. The company is in the process of developing system for impairment calculations on or before 31 December 2020.</p>	<p>It is recommended to take necessary steps to automate this process and minimize manual intervention to avoid possible risk of manipulation and omission of data. This would in addition, save much of the time spent on extracting data from different sources and compilation of the same and reliance massive excel work sheets.</p>

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
<p>Section 2.(8) of the Finance Companies (Corporate Governance) Directions No.4 of 2009 issued by CBSL</p>	<p>The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments. The company was unable to obtain the completed self-assessments for the year 2019/2020 due to Covid 19 pandemic and obtained such assessments on 14.06.2020 except for one director. Further it was observed that some of them were incomplete.</p>	<p>We took steps to distribute the Annual self-Assessment to the Directors at the first meeting held on 28th May 2020 after lifting the curfew imposed in Colombo pursuant to the spread of COVID-19. Some directors had not commented under certain items of the questionnaire since they were appointed to the Board recently. However, at the meeting of the Board of Directors held on 30th July 2020, the Board instructed the Company Secretary to obtain the reasons from the Directors as to why they had not commented under certain items, and same was included in the questionnaire by the respective Director and the questionnaires were</p>	<p>Need to obtain the completed self-assessments.</p>

completed. Director, Ms.Coarlie Pietersz did not take part in Self-Evaluation since she was appointed to the Board with effect from 01st March 2020 and had not attended any meeting during the Financial year ended 31st March 2020

1.7 IT General Controls

Audit Issue

During the review, noted that some user accounts of resigned employees were not deactivated on timely basis in the “In Bank” and Microfin systems.

Management Comment

Access Management Unit” will be established under IT department in order to streamline all access related matters.

Further, It is planned to automate and record all the above scenarios by implementing an electronic memo system in order to generate correct reports and to automate the deactivation in future dates.

Recommendation

Need to be strictly adhere with the deactivation of user accounts on timely basis.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs.6,554 million and the corresponding profit in the preceding year amounted to Rs. 8,672 million. Therefore, a decline amounting to Rs.2,118 million of the financial result was observed. The reasons for the deterioration are increasing of impairment charges for loans and receivables and other losses, depreciation and amortization expense, personal expense by Rs. 3060 million, Rs. 538 million and Rs. 263 million respectively.

2.2 Trend Analysis of major Income and Expenditure items

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

Description	Variance Amount Increase / (Decrease) (Rs'000)	Variance %	Reason for the variance
Impairment Charge and other losses for loans and receivables	3,060,177	193	This increase is due to increase in credit risk of the company as a result of Covid 19 pandemic from March 2020.

Other operating expenses	(756,175)	(26.58)	This is mainly due to adjustment to SLFRS 16 – “Lease” in the year 2020. Standards allowed to adjust accounts only for the current year onwards (1 st April 2019 onwards). Therefore the comparative information is reported under LKAS 17 is not comparable with the information presented in 2019.
Income tax expenses	(559,819)	(25.81)	This reduction is in line with the reduction in profit compared to last financial year.
Fee and commission income	185,062	12.26	The company has increase fees charged for facilities during the year compared to year 2019.

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.

Description	2019/2020	2018/2019
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Return on Equity (ROE)	10	15.88
Return on Assets (ROA)	2.64	3.95
Net Interest Margin	9.68	9.70
Gross Nonperforming Advances (NPL)	7.62	3.91
Tier 1 Capital (Minimum 7%)	15.12	14.36
Total Capital (Minimum 11%)	15.99	15.20

3. Operational Review

3.1 Procurement Management

Audit Issue	Management Comment	Recommendation
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1. As per the section 3.2 of procurement manual, if the procurement value is over Rs. 1Mn, minimum three quotations should be obtained. However, the company had obtained only one quotation instead of minimum three quotations based on the company’s practice of considering one request for capital purchases from branch/department as one	We obtain quotation from registered suppliers through tender procedure on annual basis. And will take steps to include quantity base quotations Ex:1-5 units 5-10 units 10-20 units	Need to adhere with the procurement manual.

procurement and obtaining approvals and calling quotations for the same. When issuing purchase orders, Logistic Department of the company consider all procurements (requests) for same product as one procurement and in certain instances, aggregated value exceeded Rs.1 Mn.

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| 2. Although as per the procurement manual, Decision Making Unit (DMU) should appoint a Technical Evaluation Committee (TEC) for procurement above Rs.15 Mn and less than Rs.15 Mn depending on the nature of the item, responsibilities and duties of TEC and composition of TEC were not defined in the procurement manual. | Will be included in the procurement manual which is being reviewed now. | Need to take actions to include necessary information. |
| 3. Procurement manual was not reviewed since 2017 as at the date of audit. | This is being reviewed and expect to complete before 31/03/2021 | Need to review on timely manner. |

3.2 Human Resources Management

Audit Issue

1. Company was not presented board approved Scheme of Recruitment (SOR) and promotion for each post for audit perusal.

Management Comment

The Company has a main HR Policy approved by the Board of Directors. In that the responsibility of each task in recruitment has been identified, assigned to the respective management personnel and approved by the board.

Based on the authority given to the management following aspects were approved by the respective management personnel.

- JD
- Qualifications
- Experience

Further following aspects are covered in the main HR policy.

- Age,
- Mode of recruitment
- Other conditions

2. Although the company has prepared branch level Manpower

HRD has MPP (Man Power Planning for the entire Company agreed by each

Recommendation

At the time of audit no such document was presented to the audit perusal and recommended to submit the board approved SOR with the following aspects.

- Job Description
- Requisite professional/academic qualifications
- Experience required
- Age Limit
- Mode of recruitment
- Other conditions etc.

Recommended to develop carder for entire company

Planning separately for zone 1 and 2 and head office including staff summary for each divisions separately, clearly defined board approved cadre for entire company was not present for audit perusal.

HOD approved by CEO.

based on MPP agreed by the Heads of the Divisions.