

## People's Leasing & Finance PLC and its subsidiaries - 2020/2021

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### 1. Financial Statements

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#### 1.1 Opinion

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The audit of the financial statements of the People's Leasing & Finance PLC ("Company") and the Consolidated Financial Statements of the company and its Subsidiaries ("Group") for the year ended 31 March 2021 comprising the statement of financial position as at 31 March 2021 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 give a true and fair view of the financial position of the Company and the Group as at 31 March 2021, 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

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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

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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

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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 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 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>
1. The company identifies the transactions with government entities manually.	Management has noted the above issue. The Company is in the process of creating a separate code to identify transactions with Government entities in the future.	Company should develop a process to capture the transactions with government entities by the system itself by creating a client code for each entity.
2. The system unable to capture the aggregate aging of restructured or rescheduled and refinance facilities.	This is already available in the system however aggregate age is not captured in the month end report. The Company will make changes to the month end report to capture aggregate aging in the financial year 2022 onwards.	Company needs to capture aggregate aging.
3. The impairment process of the company is a manual exercise. In this process, management generate several internal reports to extract required data such as days past due; maturity date of the facilities: first default date, watch list customers and re-schedule customer list. Since the company doesn't have a single source of information, number of system reports should be used to extract such information.	Management has noted the above issue and we have already developed system driven solution on impairment calculation in collaboration with ICT department. Due to moratorium granted subsequent to the year ended the company unable to use system generated impairment computation.	Company needs to expedite of using system driven solution due to excessive manual work around and amalgamation of several reports into a single platform could lead to omissions, misstatements and human errors.

## 1.5.2 Unreconciled Control Accounts or Records

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
It was noted that there are some facilities with long outstanding days in “210101059 - CREDITORS CONTROL-LEASE / HP” GL Account as of the reporting date.	These balances were subsequently cleared from this GL account.	Need to clear balances without significant delays.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs.7,095 million and the corresponding profit in the preceding year amounted to Rs. 6,554 million. Therefore, an increase amounting to Rs. 541 million of the financial result was observed. The reasons for the increase are decreasing of impairment charges for loans and receivables and other losses, interest expenses and other operating expenses by Rs. 3,603 million, Rs. 2,722 million and Rs. 475 million respectively.

### 2.2 Trend Analysis of major Income and Expenditure items

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

<b>Year</b>	<b>2020/2021</b>	<b>2019/2020</b>	<b>2018/2019</b>	<b>2017/2018</b>	<b>2016/2017</b>
Interest Income (Rs. Mn)	24,983	31,459	30,836	26,705	22,041
% of Increase/(Decrease) compare to the preceding Year	(20.58)	2.02	15.47	21.16	
Interest Expenses (Rs. Mn.)	13,064	15,787	15,646	14,500	11,830
% of Increase/(Decrease) compare to the preceding Year	(17.24)	0.99	7.9	22.58	
Profit Before Tax (Rs.Mn)	7,095	6,554	8,672	7,070	6,400
% of Increase/(Decrease) compare to the preceding Year	8.25	(24.42)	22.67	10.47	

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)	Variance %	Reason for the variance
-----	----- (Rs'000)	-----	-----
Impairment Charge and other losses for loans and receivables	(3,602,846)	(77.54)	Impairment Charge and other losses for loans and receivables decreased due to improvement in collections during the last quarter of the financial year.
Other operating income	(296,113)	(68.04)	Other operating income declined mainly due to decline in dividend income from Subsidiaries.
Other operating expenses	(475,385)	(22.76)	Business promotion expenses during the period and general utility expenses were reduced due to slow down operations as a result of pandemic.
Interest income	(6,475,663)	(20.58)	The decline is mainly attributed to significant reduction in default interest income and interest rates throughout the period due to moratorium offered. In addition, significant reduction cumulative business volumes and moratorium granted at lower rates amid the COVID-19 outbreak also negatively impacted the interest income.
Interest Expenses	(2,722,276)	(17.24)	Interest expense also decreased as a result of reduction in overall business volumes and reduction in interest rates during the early part of the 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 with the comparison to the Sector Ratios published by the Central Bank of Sri Lanka.

Description	Sector Ratio	Company	
		2020/2021	2019/2020
<b>Performance Ratios</b>			
Return on Equity (ROE)	12.83	12.49	10.00
Return on Assets (ROA)	3.14	3.49	2.64
Net Interest Margin	7.38	7.58	9.68
<b>Assets Quality Ratio</b>			
Gross Nonperforming Advances (NPL)	11.31	9.22	9.04
<b>Capital Adequacy Ratios</b>			
Tier 1 Capital (Minimum 7%)	13.55	17.72	15.12
Total Capital (Minimum 11%)	14.84	18.58	15.99

## 3. Operational Review

### 3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation									
a) An adequate process was not available to justify the estimated time/period taken to realize the security used as collateral to recover the outstanding of individual significant customer. For an example, expected settlement years considered for security realization over the time had remained same for both years 2020 and 2021 for the below mentioned customers.	1) Asho Cars Japan (Pvt) Ltd Above client's facilities against properties are in litigation process and we have obtained writ for both the facilities. Due to COVID 19 pandemic the cases were delayed extending our expected deadlines. <b>Property 1(Situated in Thalwatta)</b> - We have obtained the secondary mortgage of the property and the Primary mortgage holder is Commercial Bank. Commercial Bank has executed its "parate" rights, but the client has filed an objection against it and therefore the case is delayed.	Company should be able to justify the estimations with reliable prove.									
<table border="1"> <thead> <tr> <th>Customer</th> <th>Expected Realization in 2021</th> <th>Expected Realization in 2020</th> </tr> </thead> <tbody> <tr> <td>Asho Cars Japan (Pvt) Ltd</td> <td>2 Years</td> <td>2 Years</td> </tr> <tr> <td>Selikno Holdings (Pvt) Ltd</td> <td>5 Years</td> <td>5 Years</td> </tr> </tbody> </table>	Customer	Expected Realization in 2021	Expected Realization in 2020	Asho Cars Japan (Pvt) Ltd	2 Years	2 Years	Selikno Holdings (Pvt) Ltd	5 Years	5 Years		
Customer	Expected Realization in 2021	Expected Realization in 2020									
Asho Cars Japan (Pvt) Ltd	2 Years	2 Years									
Selikno Holdings (Pvt) Ltd	5 Years	5 Years									

**Property 2(Situated in Katugasthota Road) - Writ** executed for the property but later the court instructed to go for a settlement with the client. At the time of writ execution, the client was at the property. Hence, we need to prove that the client does not reside in this property which allows us to auction the property and it takes time to gather required proof for presenting them to courts.

**(2) Selikno Holdings (Pvt) Ltd**  
 In 2020 year we expected to recover the dues by initiating legal action against the client and in year 2021, the client reached us to negotiate a settlement plan and he requested 4-5 years' time period to do the repayments.

b) According to the policy of the company, it is required to scan all the loan related documents to the InBank system instead of maintaining a physical marketing file for each customer at the branch level. During the audit, it was noted that scanned CRIB reports were not available for the below mentioned facilities, in the InBank system.

During the financial year 2020 the Company started implementing security document scanning process as the Company wanted to reduce paper waste and such process was fully completed in the financial year 2021. Now full scan security documents are available in the system

Company need to adhere with internal policies.

**Facility No.**

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- 2 GRLEML2000068600
- 3 GRLEML2000068700
- 4 GRLEML2000068900
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