

## **People's Leasing & Finance PLC and its subsidiaries -2021/2022**

### **1. Financial Statements**

#### **1.1 Opinion**

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 2022 comprising the statement of financial position as at 31 March 2022 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 2022 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 and 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 the Group's financial reporting process.

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

## 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 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 Company's and 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 Company's and 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 Company and 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>
<p>(i) 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. For example, in obtaining information such as days past due; maturity date of the facilities: first default date, watch list customers, re-schedule customer list, management did not have a single source of information and hence, number of system reports were used to extract such information. Further, excessive manual workaround and amalgamation of several reports into a single platform could lead to omissions, misstatements and human errors.</p>	<p>We have already completed LGD, PD and EAD calculations through the system in collaboration with IT department, yet due to continuous improvements to the model and management overlays some calculations are unable to perform through the system. Ex: moratorium adjustments, External audit adjustment implementation, dynamic economic conditions, etc. However, the Company is working to get impairment through system based model.</p>	<p>It is suggested to take necessary steps to automate this process and minimize manual intervention to avoid possible risk of manipulation and omission of data. In addition, it would save time spent on extracting data from different sources and compilation of the same and reliance massive excel work sheets.</p>
<p>(ii) During the course of the audit, it was observed that the quoted investments were recorded under the unquoted investment GL account. Quoted investment as at 31 March 2022 as follows.</p> <ul style="list-style-type: none"> <li>• Asiri Hospital PLC - 500,000 shares</li> <li>• Sanasa Development Bank PLC - 2,271,260 shares</li> </ul>	<p>Even though the Company has correctly classified quoted and unquoted investments in financial statements, both these investments have been maintained in a single account. Accordingly, the Management noted the above issue highlighted by the Auditors two separate GL accounts were created for quoted and unquoted investments.</p>	<p>It is recommended for the company to identify quoted and unquoted investments in separate GL accounts for the enhanced clarity purposes.</p>

- People's Merchant Finance PLC - 25,014,002 shares
- LCB Finance PLC - 5,000,000 shares

(iii) During the course of the audit, it was noted that for some of the assets in the Fixed Asset system, does not contain an asset code. It is an arduous task to identify the assets individually in the physical verification of fixed assets.

The Company has developed a dedicated Enterprise Resource Management (ERM) module for the effective management of fixed assets and currently in the process of entering fixed asset categories in to this module.

It is suggested to take necessary steps to allocate an asset code for all asset types and take that into Fixed Asset System.

Out of various fixed asset types the Company has already entered and assets coding also completed in generators, air-conditioners, name boards and motor vehicles in to the new ERM module. Office equipment are entered in the ERM system and assets coding expected to be completed by 30 October 2022.

Further it is expected to enter all remaining fixed asset categories and complete the task by 30 April 2023. Accordingly, asset codes will be allocated to all the fixed assets and will be reflected in this ERM module.

## 1.6 IT General Controls

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
When the customer has made an overpayment for instalment in respect of their facility or the customer has paid the relevant instalment before its due date, system will automatically credit to Unapplied Credit Account (220205126). During the course of audit, it was noted that, 02 unapplied credit account entries were not adjusted in the IT report (portfolio) for the below mentioned two Self-E Cash facilities which caused a difference of Rs. 1.31 million between GL accounts Vs portfolio.	Noted, IT Department has tested subject system error in UAT system and will be rectify in live system on or before 31 August 2022.	Need to be ratified.
<b>Facility No.</b>	<b>Amount</b>	
	<b>Rs.</b>	
ANLESC1800003100	1,000,000	
HOLESC1700012000	316,040	

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 8,295 million and the corresponding profit in the preceding year amounted to Rs. 7,095 million. Therefore, an increase amounting to Rs. 1,200 million of the financial result was observed. The reasons for the increase are decreasing of impairment charges for loans and receivables and other losses and increasing other operating income by 37.21 percent and 587.86 percent respectively.

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

2.2.1 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>2021/2022</b>	<b>2020/2021</b>	<b>2019/2020</b>	<b>2018/2019</b>	<b>2017/2018</b>
Interest Income (Rs. Mn)	23,881	24,983	31,459	30,836	26,705
% of Increase/(Decrease) compare to the preceding Year	(4.41)	(20.58)	2.02	15.47	21.16
Interest Expenses (Rs. Mn.)	10,832	13,064	15,787	15,646	14,500
% of Increase/(Decrease) compare to the preceding Year	(17.09)	(17.24)	0.99	7.9	22.58
Profit Before Tax (Rs.Mn)	8,295	7,095	6,554	8,672	7,070
% of Increase/(Decrease) compare to the preceding Year	16.91	8.25	(24.42)	22.67	10.47

**2.2.2** 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.

<b>Description</b>	<b>Variance Amount Increase / (Decrease)(Rs'000)</b>	<b>Variance %</b>	<b>Reason for the variance</b>
Impairment Charge and other losses for loans and receivables	(388,412)	(37.21)	Impairment and other losses reflected 37.21 percent decrease compared to impairment charges in the corresponding period of the previous financial year mainly due to improvement in collection.
Other operating income	817,485	587.86	Other operating income increased by Rs 817 Mn. This is mainly due to dividend income received from subsidiaries of PLC amounted to Rs 930.63 Mn for the year ended 2021/22 compared to Rs. 110 Mn in 2020/21.
Other operating expenses	521,638	32.34	The business operations of the People's Leasing & Finance PLC were under duress owing to the pandemic effect in FY 2020/21. But, in the 2021/22 financial year, the company expanded its business operations, and as a result, operating expenses have increased.
Interest income	(1,101,919)	(4.41)	The reduction is mainly attributable to decline in interest rates and execution of debt moratorium due to third and fourth wave of COVID-19 outbreak.
Interest Expenses	(2,232,124)	(17.09)	This is mainly due to the decline in interest rates in first half of the financial year 2021/22 on deposits compared to previous financial year as a result of policy rates reduction by CBSL.

### 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	
		2021/2022	2020/2021
<b>Performance Ratios</b>			
Return on Equity (ROE)	20.83	12.74	12.49
Return on Assets (ROA)	5.29	3.85	3.49
Net Interest Margin	8.02	8.10	7.58
<b>Assets Quality Ratio</b>			
Gross Non Performing Advances (NPL)	8.99	8.78	9.22
<b>Capital Adequacy Ratios</b>			
Tier 1 Capital (Minimum 7%)	15.78	18.76	17.72
Total Capital (Minimum 11%)	17.33	19.67	18.58