

**1. Financial Statements**

**1.1 Opinion**

The audit of the financial statements of the People's Leasing & Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group") for the year ended 31 March 2024 comprising the statement of financial position as at 31 March 2024, and statement of profit or loss, 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 material accounting policy information, 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 2024 and of their financial performance and 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 intends 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 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 internal controls of the Company and the Group.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision, and performance of the group audit. I remain solely responsible for my audit opinion.

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. Accounts receivable and payables

### 1.5.1. Receivables

Audit Issue	Management Comment	Recommendation
(i) Company has not taken sufficient actions to recover long outstanding balances over 5 years amounting to Rs.3,860 million relating to 1708 facilities. Further, above balance includes long outstanding balances over 10 years in relation to 81 facilities amounting to Rs.86 million.	Following the recommendations of Board Integrated Risk Management Committee (38/2024) on 16 May 2024, and Board Audit Committee (CP 59/2024) on 21 May 2024, the write off proposal was submitted via BP 179/2024 on 28 May 2024 to get approval of the Board of Directors for the proposed writing off a total of 1,206 facilities amounting Rs.2,695,311,129/-(Net receivable amount).  However, the proposal was not approved by the Board of Directors and was of the view that write-offs should be deferred until the conclusion of the elections at least. we will re submit to the board paper within the FY 2024/25.	Take necessary actions to recover these long outstanding balances.

## 1.6 IT General Controls

Audit Issue	Management Comment	Recommendation
According to the selected sample, the user accounts of the resigned employees were not deactivated in a timely manner in the InBank and Microfin systems. Inadequate procedures over timely deactivation of user accounts of resigned	We acknowledge the concern regarding the timely deactivation of user accounts for resigned employees. As part of our preventive measures, we have implemented the following actions: Immediate Access Removal: All	Take necessary actions to ensure timely deactivation of user accounts of resigned/transferred employees.

employees could result in significant issues when allocating responsibilities for business transactions. As an example, an existing user can utilise the account of a resigned employee to make fraudulent transactions in the system, but he/she could not be held responsible for such transactions since he/she uses someone else's user credentials.

system access for resigned employees is deactivated as soon as the resignation is processed, ensuring that no former employees retain access to critical systems such as InBank and Microfin.

**Routine Audits:** We conduct regular audits of system access to verify that only authorized personnel have active accounts and ensure that any discrepancies are addressed promptly.

These steps are in place to mitigate the risk of unauthorized access and prevent potential fraudulent activities. We remain committed to continually improving our processes to safeguard our systems.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 5,376 million and the corresponding profit in the preceding year amounted to Rs. 4,342 million. Therefore, an improvement amounting to Rs. 1,034 million of the financial result was observed. However, interest income and interest expenses have been reduced by Rs. 1,343 million and Rs. 1,006 million respectively while other operating expenses has been increased by Rs. 694 million. Main reasons for the improvement are reversal of the impairment provision by Rs.1,724 million and decrease of interest expenses by Rs. 1,006 million.

### 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	2023/2024	2022/2023	2021/2022	2020/2021	2019/2020
Interest Income (Rs. Mn)	28,853	30,197	23,881	24,983	31,459
% of Increase/(Decrease) compare to the Preceding Year	(4.45)	26.45	(4.41)	(20.58)	2.02
Interest Expenses (Rs. Mn.)	17,201	18,207	10,832	13,064	15,787
% of Increase/(Decrease) compare to the Preceding Year	(5.53)	68.08	(17.09)	(17.24)	0.90
Profit Before Tax (Rs. Mn)	5,376	4,342	6,650	5,873	4,552
% of Increase/(Decrease) compare to the Preceding Year	(23.82)	(34.71)	13.23	29.02	(30.87)

**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>
Interest Income	(1,343,282)	(4.45)	This is mainly due to reduced interest income from loans and receivables, resulting from a strategic decision to curtail lending with long-term maturities, particularly during the first half of the financial year and due to the impact of interest rate reduction of investment portfolio.
Interest Expenses	(1,006,058)	(5.53)	This is mainly due to the notable decrease in interest expense on debt securities and bank borrowings, reflecting the reduction in policy interest rates compared to the previous financial year.
Fee and commission income	279,533	22.09	Fee and commission income increased in line with the Company's decision to lend with long term maturities from second half of the financial year.
Impairment charges	(1,724,261)	(303.31)	This is mainly due to the Company's strategic focus on recoveries which led to a cumulative collection ratio of 100.34 percent for the year, enabling People's Leasing to record a substantial reversal in impairment charges for loans and receivables. Additionally, there was a favorable impact from economic factor adjustment.
Personal expenses	(240,434)	(5.36)	Personnel cost decreased by 5.36 percent due to the decline in staff benefit from granting of staff loan at concessionary rate significantly as a result of decrease in market interest rates. This adjustment made in order to comply with SLFRS 9.

### 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 (As at 31 December 2023)	Company	
		2023/2024	2022/2023
<b>Performance Ratios</b>			
Return on Equity (ROE)	12.09	8.68	7.68
Return on Assets (ROA)	4.23	3.25	2.47
Net Interest Margin	7.74	7.69	7.35
<b>Assets Quality Ratio</b>			
Non -Performing Ratio	17.76	15.24	14.26
<b>Capital Adequacy Ratios</b>			
Tier 1 Capital (Minimum 10%)	21.13	30.00	25.76
Total Capital (Minimum 14%)	22.33	29.70	26.61