

People's Micro Commerce Limited – 2021/2022

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the People's Micro Commerce Limited ("Company") 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 changes in equity and cash flow statement 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 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 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 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 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 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.

Audit Issue	Management Comment	Recommendation
i. The impairment process of the company is a manual exercise. In this process, management generates several internal reports to extract required data for the calculation of impairment. This process which involves excessive manual workaround and amalgamation of several reports into a single platform could lead to omissions, misstatements and human errors.	Due to complexity of the impairment calculation methodology fully automated system is difficult to develop. However, we are in the process of developing some system generated reports to support calculations	It is suggested to take necessary steps to automate the process of impairment calculation to a sufficient extent and minimize the manual intervention to avoid possible risk of manipulation and omission of data. In addition, this would save much of the time spent on extracting the data from different sources and compilation of the same.
ii. Company has captured all the non-performing loan & lease closed facilities in the last 03-year for the Loss Given Default (LGD) computation	Company now uses data from the previous three years to determine LGD, however Company will consider incorporating more data in order to strengthen the LGD considering data availability in the future	Company should consider the all non-performing loan and higher purchase closed facilities in the last five years for the LGD calculation with the availability of relevant data to obtain more accurate LGD.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 276,623,242 and the corresponding profit in the preceding year amounted to Rs. 202,056,281. Therefore, an improvement amounting to Rs. 74,566,961 of the financial result was observed. The reasons for the improvement are the decrease in the impairment charges for loans and receivables amounting to Rs. 74,486,836, the decrease in the interest expenses amounting to Rs. 33,107,377 and the increase made in the fee and commission income amounting to Rs. 13,991,903 despite the decline in the interest income amounting to Rs. 25,840,702.

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	2021/2022	2020/2021	2019/2020	2018/2019	2017/2018
Interest income (Rs.)	793,186,355	819,027,057	795,054,678	676,325,915	519,381,024
Percentage of Increase / (Decrease) compared to the preceding year (%)	(3.16)	3.02	17.55	30.22	
Interest expenses (Rs.)	184,907,941	218,015,318	265,159,407	240,935,082	198,966,597
Percentage of Increase / (Decrease) compared to the preceding year (%)	(15.19)	(17.78)	10.05	21.09	
Profit Before Tax (Rs.)	276,623,242	202,056,281	48,974,530	87,443,094	44,666,225
Percentage of Increase / (Decrease) compared to the preceding year (%)	36.90	312.57	(43.99)	95.77	

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
Impairment	(74,486,836)	(62.09)	<p>The stated 62.09 percent reduction denotes a decrease in the impairment value presented on face of the income statement. The value consists of the following three categories, which are elaborated in the note:</p> <ul style="list-style-type: none"> • Impairment of Loans & HP • Write offs net of recoveries • Disposal Loss <p>In the F/Y 2020/2021, write-off value is included in impairment value, and for the F/Y 2021/22, there is no write-off amount. This becomes the primary reason for the decrease in impairment value shown on the income statement. If we separately consider the impairment of loans & HP, it represents the 10 percent increment compared to F/Y 2020/2021.</p>
charges for loans and receivables	(33,107,377)	(15.19)	<p>i. All Loans have been taken at variable rates and the interest rate reduction (AWPLR) within first half of the F/Y 2021/2022 compared to F/Y 2020/2021 was the major reason for the reduction in charges for loans and receivables.</p> <p>ii. As well PLC Loans & Sanasa Loans were settled in F/Y 2020/21.</p>
Fee and commission income	13,991,903	28.57	<p>Fee and commission income is dependent on new granting. The granting of new businesses has been halted due to the COVID-19 pandemic outbreak in 2020/21. As a result, business-related fee and commission income was reduced in F/Y 2020/21, and the situation was normalised in 2021/22 gradually. Therefore, in the F/Y -2021/22, fee and commission income has increased compared the F/Y 2020/21.</p>
Other operational expenses	10,699,239	8.06	<p>Due to increase in granting in the F/Y 2021/2022 compared to F/Y 2020/21 the sales related expenses also increased by 29 percent.</p> <p>Other major operational expenses that increased compared to last F/Y are:</p>

- i. Branch rent - Rent related to the new stand-alone branch at Katugasthota is totally included in the operational expenses in F/Y 2021/22. (Company started new stand-alone branch at Katugasthota in January 2021)
- ii. Company held a Branch Competition and the cost related to prize winners included in the operational expenses in F/Y 2021/2022.

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	2021/2022	2020/2021
Net Profit Ratio	22.99%	15.29%
Return on Equity (ROE)	37.96%	36.09%
Return on Assets (ROA)	6.41%	4.94%
Debt to Equity Ratio	4.92	6.30