

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 2023 comprising the statement of financial position as at 31 March 2023 and statement of profit and loss, statement of comprehensive income, 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 2023, 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 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 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 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
(i) The aggregate aging of restructured or rescheduled and refinance facilities had not been captured by the system.	The 'month end report' is only one of the crucial reports that the finance department uses internally and this report does not currently has aggregate aging data. The finance team relies on a separate report called 'recovery report to derive the aggregate aging'. Accordingly, there is presently no pressing need for the company to include aggregate aging figures in the month end report. However, a formal request has already been made to the IT department to facilitate the requirements of external auditors.	It is suggested to make necessary changes to the system to capture aggregate aging in month end report.
(ii) 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 work around and amalgamation of several reports into a single platform could lead to omissions, misstatements and human errors.	In collaboration with the IT department, we have successfully concluded LGD, PD and EAD calculations through our system. Nevertheless, certain calculations remain outside the system's capabilities due to continuous model enhancement and managerial adjustments. These include modification related to moratoriums, the implementation of revision in external audit procedures, and the evolving economic landscape. Nonetheless, the Company is actively working towards achieving impairment calculation through a system-based approach.	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.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(i) Section No. 10.3.j.vii of Direction No. 05 of 2021 (Corporate Governance) issued by Central Bank of Sri Lanka (CBSL)	The Board Integrated Risk Management Committee (BIRMC) shall submit a risk assessment report for the upcoming Board meeting seeking the Board's view, concurrence and/or specific directions. However, present practice of the company is to submit BIRMC minutes to the next Board meeting.	Agree. We will make necessary arrangements to submit the Risk Assessment Report to the Board.	BIRMC will have to submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions as required in the direction.

1.7 IT General Controls

Audit Issue	Management Comment	Recommendation
(i) 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 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.	Out of 28 delayed instances, only 3 users (404204, 404638, 30720) were delayed due to the delay occurred in Access Unit. The reason for this is an error occurred in the auto deactivation screen in last year and therefore the access unit has done deactivations manually. This has been corrected from March 2023. All the other 25 delayed deactivations were due to the HR delays of informing the resignations to the Access Unit.	It is important to promptly remove access to the organization's applications from the employees who have resigned, since it will help to mitigate the risk of these accounts being misappropriated. The user accounts of resigned employees need to be deactivated on their dates of resignation, at the end of the business day.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 4,342 million and the corresponding profit in the preceding year amounted to Rs. 6,650 million. Therefore, a deterioration amounting to Rs. 2,308 million of the financial result was observed. The reasons for the deterioration are increase of interest expenses and personal expenses by Rs. 7,375 million and Rs. 486 million respectively and decrease of fee and commission income and other operating income by Rs. 611 million and Rs. 409 million respectively despite the increase of interest income amounting to Rs.6,315 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	2022/2023	2021/2022	2020/2021	2019/2020	2018/2019
Interest Income (Rs. Mn)	30,197	23,881	24,983	31,459	30,836
% of Increase/(Decrease) compare to the Preceding Year	26.45	(4.41)	(20.58)	2.02	-
Interest Expenses (Rs. Mn.)	18,207	10,832	13,064	15,787	15,646
% of Increase/(Decrease) compare to the Preceding Year	68.08	(17.09)	(17.24)	0.90	-
Profit Before Tax (Rs.Mn)	4,342	6,650	5,873	4,552	6,585
% of Increase/(Decrease) compare to the Preceding Year	(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.

Description	Variance Amount Increase / (Decrease) (Rs'000)	Variance %	Reason for the variance
Interest Expenses	7,374,757	68.08	Interest expenses increased by 68.08 percent compared to the figure recorded in FY 2021/22. Interest paid/accrual to depositors represents the largest share of total interest expense and the increase in the current financial year was mainly the result of frequent re-pricing of the fixed deposits portfolio in tandem with the increased policy interest rates during the first nine months of the year.
Interest Income	6,315,062	26.44	Growth in interest income of the Company was driven by sharp rise in market interest rates, which generated 26.44 percent improvement in interest income from investments in fixed deposits and government securities.
Fee and commission income	(611,237)	(32.57)	Fee and commission income decreased due to low demand for new business amidst adverse economic conditions. Fee and commission income associated with lending declined significantly compared to the previous year.

Personal expenses	486,132	12.15	Personal cost increased mainly due to an accounting entry in order to comply with SLFRS 9 arise as a result of sharp rise in market interest rates.
Other operating income	(409,257)	(42.78)	Other operating income mainly comprise of dividend income from investments and gain on sale of PPE, which was declined significantly by 42.78 percent due to reduction in dividend received from subsidiaries from Rs.930.62 million to Rs. 513.82 million.

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	
		2022/2023	2021/2022
Performance Ratios			
Return on Equity (ROE)	8.95	7.68	12.74
Return on Assets (ROA)	3.00	2.47	3.85
Net Interest Margin	6.68	7.35	8.10
Assets Quality Ratio			
Gross Nonperforming Advances (NPL)	15.98	14.26	8.78
Capital Adequacy Ratios			
Tier 1 Capital (Minimum 10%)	20.50	25.76	18.76
Total Capital (Minimum 14%)	21.86	26.61	19.67