

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the People's Micro Commerce Limited ("the Company") for the year ended 31 March 2024 comprising the statement of financial position as at 31 March 2024 and the 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 gives a true and fair view of the financial position of the Company as at 31 March 2024, 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 determines 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 intends 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 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 control of the Company.
- 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
The Company does not have a documented list of owners in relation to GL accounts, financial statements notes and disclosures.	The allocation of separate personnel for separate GL s and notes can be applied in the future with necessary staff recruitments within next Financial Year.	Take necessary actions to identify the custodians of respective notes and disclosures for both preparer and approver.

1.5.2 Documentary evidences not made available for audit

Audit Issue	Management Comment	Recommendation
The rent agreement for the Galle branch is not available.	A new agreement will be developed between PIL & PML.	Take necessary actions to available the rent agreement.

1.6 IT General Controls

Audit Issue	Management Comment	Recommendation
I. User accounts of resigned employees were not deactivated on timely basis in MicroFin systems at the time of review as at 31 March 2024.	HR Department has informed access unit to deactivate the user accounts but at a delayed day.	The user accounts of resigned/transferred/retired employees need to be deactivated on their respective dates of resignation/transfer/retirement at the end of the business day.
II. Disaster Recovery Plan of the People's Micro Commerce Limited had not been reviewed after 27 January 2022.	Since the IS unit is in the process of implementing the CBSL direction No 01 of 2022, they are in the process of amending the Disaster Recovery Plan.	Further, take necessary actions to update policies and procedures.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 186,155,736 and the corresponding profit in the preceding year amounted to Rs. 67,050,781. Therefore, an improvement amounting to Rs. 119,104,955 of the financial result was observed. The reasons for the improvement are the increase in the interest income by Rs. 120,566,762 and the decrease in the interest expenses by Rs.126,228,492.

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.)	885,647,924	765,081,162	793,186,355	819,027,057	795,054,678
% of Increase / (Decrease) compared to the preceding year	15.76	(3.54)	(3.16)	3.02	-
Interest expenses (Rs.)	388,057,922	514,286,414	184,907,941	218,015,318	265,159,407
% of Increase / (Decrease) compared to the preceding year	(24.54)	178.13	(15.19)	(17.78)	-
Profit Before Tax (Rs.)	186,155,736	67,050,781	276,623,242	202,056,281	48,974,530
% of Increase / (Decrease) compared to the preceding year	177.63	(75.76)	36.90	312.57	-

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
Interest income	120,566,762	15.76	The granting (disbursement) for the financial year 2023/24 has been increased by 142 percent compared to 2022/23 financial year.
Interest expenses	(126,228,492)	(24.54)	All PML borrowings are at variable rates. The market interest rates are at a higher rate in the financial year

2022/23 compared to the financial year 2023/24. Due to this the interest expenses has been at a lower level in the financial year 2023/24 compared to previous financial year.

Impairment charges for loans and receivables	(47,813,917)	(42.35)	The Economic factor adjustment and Probability of Defaults affected to the decrease in impairment provision as compared with previous year end.
Other operational expenses	47,314,429	41.40	The related expenses have been increased parallelly due to increase in granting (disbursement) levels.
Fee and commission income	27,314,602	108.40	The related fee and Commission income also has been increased parallelly due to increase in granting (disbursement) levels.

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	2023/2024	2022/2023
Net Profit Ratio	11.83%	8.48%
Return on Equity (ROE)	17.82%	13.08%
Return on Assets (ROA)	3.77%	2.54%
Debt to Equity Ratio	3.72	4.14