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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



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My No. }

BAF/D/PLF/2021/01

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Date }

07 June 2021

Chairman
People's Leasing & Finance PLC

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the People's Leasing & Finance PLC and its Subsidiaries for the year ended 31 March 2021 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

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 2021 comprising the statement of financial position as at 31 March 2021, 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 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. 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 2021, 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 Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

| Key audit matter | How my audit addressed the key audit matter |
|---|---|
| <p>Impairment allowance for loans and receivables</p> <p>As at 31 March 2021, 82% of its total assets of the Group consisted of loans and receivables amounting to Rs. 149,342 million (Note 25), net of impairment allowance of Rs. 9,882 million (Note 25).</p> <p>As described in Note 25.7, impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard - SLFRS9 Financial Instruments (SLFRS9).</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"> materiality of the reported impairment allowance which involved spread sheets calculations; and the degree of assumptions, judgements and estimation uncertainty associated with the calculations. <p>Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following:</p> <ul style="list-style-type: none"> the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the group); forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses. | <p>I assessed the alignment of the Group's expected credit loss computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID 19 impacts and related industry responses based on the best available information up to the date of my report.</p> <p>Audit procedures included amongst others the following:</p> <ul style="list-style-type: none"> I evaluated the design effectiveness of controls where relevant over estimation of impairment of loans and receivables, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management. I checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the company. I test-checked the underlying calculations. In addition to the above, following focused procedures were performed: <p>For a sample of loans and receivables individually assessed for impairment:</p> <ul style="list-style-type: none"> Assessing the appropriateness of the criteria used by the management to determine whether there are any indicators of impairment; and Where impairment indicators existed, I assessed the reasonableness of management's estimated future recoveries including the expected future cash flows considering Government relief measures, discount rates and the valuation of collateral held, on a sample basis. <p>For loans and receivables collectively assessed for impairment:</p> <ul style="list-style-type: none"> Assessing the reasonableness of assumptions and estimates used by management including the reasonableness of forward-looking information and scenarios; and As relevant, assessing the basis for and data used by management to determine overlays in consideration of the probable effects of the COVID-19 pandemic <ul style="list-style-type: none"> I assessed the adequacy of the related financial statement disclosures as set out in Notes 11 and 25. |
| <p>IT systems and controls relevant to financial reporting</p> <p>The Group uses multiple IT systems in its operations. I selected IT systems and controls relevant to financial reporting as a key audit matter due to:</p> <ul style="list-style-type: none"> The Group's financial reporting process being heavily dependent on information derived from its IT systems and Key financial statement disclosures involving the use of multiple system-generated reports and calculations there on A changed working environment of increased remote acces. | <p>How my audit addressed the key audit matter</p> <p>My audit procedures included the following, amongst others:</p> <ul style="list-style-type: none"> Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access. Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and gathering of required information in calculating the significant information for financial statements disclosures. Checking the source data of the reports used to generate significant disclosures for accuracy and completeness; Assessing the reasonability of management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant. |

| Key audit matter | How my audit addressed the key audit matter |
|--|---|
| <p>Impact of moratoriums and other relief measures on recognition of interest income</p> <p>Moratoriums and other relief measures were granted by the Group to customers affected by the COVID-19 Pandemic.</p> <p>Impact of moratoriums and other relief measures on the recognition of interest income on loans & receivables was a key audit matter due to:</p> <ul style="list-style-type: none"> Significant judgments that were applied in determining whether such moratoriums and other relief measures have resulted in substantial modifications or not to contracts, with customers. Use of spread sheet-based calculations by management to quantify the impacts of such moratoriums and other relief measures on the amount of revenue recognized for the period. | <p>My audit procedures included the following, amongst others;</p> <ul style="list-style-type: none"> I gained an understanding of the process adopted by the Group to grant, record and account for moratoriums and other relief measures provided to customers. I assessed the reasonableness of judgements applied by management in determining whether moratoriums and other relief measures have resulted in substantial modifications or not, to customer contracts, on a sample basis. This included evaluating whether interest income on modified contracts have been recognized in line with its accounting policy for interest revenue recognition. I tested the accuracy of underlying spread sheet-based calculations. My procedures included testing the completeness and accuracy of the data used in such spread sheet based calculations, by agreeing to source documents and moratorium customer returns, on a sample basis. |

1.4 Other information included in the Group's 2021 Annual Report.

The other information comprises the information included in the Group's 2021 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

1.5 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 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 the 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.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

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 Company's and 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 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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

- National Audit Act, No. 19 of 2018 and Companies Act, No 7 of 2007 include specific provisions for following requirements.
 - I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of section 163 (2) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.
 - The financial statements of the Company comply with the requirement of section 151 of the Companies Act, No. 07 of 2007
 - The financial statements presented is consistent with preceding year as per the requirement of section 6 (l) (d) (iii) of the National Audit Act, No. 19 of 2018.
 - The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.
- Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention.
 - To state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018;
 - To state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company's as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018;
 - To state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018;
 - To state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.


W.P.C. Wickramaratne
Auditor General