

## **People's Leasing Havelock Properties Limited – 2019/2020**

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### **1.1 Opinion**

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The audit of the financial statements of the People's Leasing Havelock Properties Limited ("Company") for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 and the 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 of the Company give a true and fair view of the financial position of the Company as at 31 March 2020, 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**

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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**

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

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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 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 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**

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### **1.5.1 Internal Control over the preparation of financial statements**

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#### **Audit Issue**

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#### **Management Comment**

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#### **Recommendation**

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i. An existing Financial Statement Closure Process (FSCP) has no proper controls which would address to key risk areas.

Management noted and we will improve the existing financial closure process before the financial year ending 2020/2021.

The company should improve the existing Financial Statement Closure Process (FSCP) with proper controls which would address to key risk areas and this would enhance the Transparency & the Accuracy of Financial Statements.

ii. The company doesn't have a proper process to reconcile the temporary differences arising in between Income Tax and Deferred Tax computations.

Noted and we will implement proper temporary difference reconciliation process with effect from December 2020 onwards.

The company should have a proper process to reconcile the temporary differences arising in between Income Tax and Deferred Tax computations. This will strengthen the accuracy of Deferred Tax computation.

## **2. Financial Review**

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### **2.1 Financial Result**

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The operating result of the year under review amounted to a profit before tax of Rs. 50,316,645 and the corresponding profit in the preceding year amounted to Rs. 41,268,022. Therefore, an increase amounting to Rs. 9,048,623 of the financial result was observed. The main reason for the increase is, decreases of fair value loss on investment property by Rs. 7,437,938.

### **2.2 Trend Analysis of major Income and Expenditure items**

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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.</b>	<b>Variance %</b>	<b>Reason for the variance</b>
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Fair value loss on investment property	(7,437,938)	(77.9)	As per the valuation report obtain from the chartered valuer, Land and building value has not been changed during the previous two financial years. Additions during this period will be considered as valuation loss since we reported investment property at its revalued amount.
Other income	(72,874)	(41.76)	The Company recognizes cafeteria rent income under the other income category. Cafeteria rent income decreased compared to preceding year. This is due to cafeteria has been vacant during the financial year 2019/20.
Administrative expenses	209,181	33.62	This is mainly due to increase in Company registration fees compared to preceding year. This is with the implementation of the provisions of the financial Act No. 35 of 2018, a new levy has been introduced for every company incorporated or registered under the Companies Act No. 7 of 2007.

### 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.

<b>Description</b>	<b>2019/2020</b>	<b>2018/2019</b>
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Net Profit Ratio	22.75%	19.68%
Return on Equity (ROE)	4.34%	3.93%
Return on Assets (ROA)	1.88%	1.55%
Current Ratio	0.28	0.26
Debt to Equity Ratio	1.31	1.39