People's Micro Commerce Limited -2019/2020

1.1 Opinion

The audit of the financial statements of the People's Micro Commerce 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

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 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 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

1.5.1 Internal Control over the preparation of financial statements

Audit Issue	Management Comment	Recommendation
The company doesn't 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.	Noted & we will implement proper temporary difference reconciliation process with effect from September 2020 onward	Company should have a proper process to reconcile the temporary differences arising in between Income Tax and Deferred Tax computations.

1.6 IT General Controls

Audit Issue	Management Comment	Recommendation
1. Non- availability of a system driven solution on impairment calculation 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. Further, 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 hope to develop a system generated reports to support calculations.	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. This would in addition, save much of the time spent on extracting data from different sources and compilation of the same and reliance massive excel work sheets.
2. DPD of the facilities The Company currently computes DPD (Days Past Due) manually.	Agreed, we have request to develop it from IT department.	The system should be able to compute DPD of the facilities in the month-end report without any manual intervention which would strengthen the Accuracy.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 80,475,124 and the corresponding profit in the preceding year amounted to Rs. 122,413,771. Therefore, a decline amounting to Rs.41,938,647 of the financial result was observed. The reasons for the deterioration are increasing of interest expense, impairment charges for loans and receivables, personal expense and other operational expense by Rs. 24,224,325, Rs. 108,358,891, Rs. 7,177,467 and Rs. 31,500,827 respectively.

2.2 Trend Analysis of major Income and Expenditure items

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.	Variance %	Reason for the variance
Impairment Charge for loans and receivables	108,358,891	122	Increase of loss on disposal of collaterals including write offs (Net of recovery) by 454 per cent with compared to preceding year.
Interest expense	24,224,325	10	Increase of interest expense on long term borrowings by 11 per cent with compared to preceding year. The Company has borrowed additional Rs. 300 million during the FY 2019/20 in order to finance the operation of the Company.
Other operating expenses	31,500,827	25	Mainly due to increase in shared fees, Outsource commission & Agent commission. Shared Fees - Increased by Rs. 18.96 million compared to last FY due to PLC increase the fees charged from subsidiaries as a group decision. Agent commission - This represent commission payment for business introducers. Increased by Rs. 9.44 million compared to last FY mainly due to increase in granting level by 28% of the Company compared to last FY. Outsource commission - Increased by Rs. 2.10 million compared to last FY due to

			expanding outsourced recovery volume during the FY 2019/20.
Fee and commission income	9,826,282	27	Mainly due to increase in service charges collection from customers for new disbursement. Service charges income increased by Rs. 8.93 million compared to last FY. This was mainly supported by growth in granting (28%) of the Company compared to last FY.

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	2019/2020	2018/2019
Net Profit Ratio	3.03%	6.98%
Return on Equity (ROE)	11%	24%
Return on Assets (ROA)	2.8%	5.45%
Current Ratio	0.87	0.92
Debt to Equity Ratio	11.28	9.76