

## **People's Micro Commerce Limited - 2020/2021**

---

### **1. Financial Statements**

---

#### **1.1 Opinion**

---

The audit of the financial statements of the People's Micro Commerce Limited ("Company") for the year ended 31 March 2021 comprising the statement of financial position as at 31 March 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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 reported 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 as at 31 March 2021, 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 Responsibility 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 scepticism 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 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 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.**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
1. The impairment process of the company is a manual exercise. In this process, management generates several internal reports to extract required data for the calculation of impairment. This process which involves excessive manual workaround and amalgamation of several reports into a single platform could lead to omissions, misstatements and human errors.	Due to the complexity of the impairment calculation methodology fully automated system is difficult to develop. However, we hope to develop a system generated reports with the support of IT department to support calculations.	It is suggested to take necessary steps to automate the process of impairment calculation to a sufficient extent and minimize the manual intervention to avoid possible risk of manipulation and omission of data. In addition, this would save much of the time spent on extracting the data from different sources and compilation of the same.
2. Not maintaining an interest computation schedule (amortization schedule) for all interest-bearing borrowings.	Noted. We have already developed amortization schedules under effective interest rate method for our borrowings.	Need to maintain amortization schedule.
3. Non-availability of asset codes in the fixed assets register for most of the fixed asset items.	Agreed, some codes were not updated in the fixed assets register. We will update the codes accordingly.	Fixed assets register needs to be update properly.

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review amounted to a profit before tax of Rs. 202,056,281 and the corresponding profit in the preceding year amounted to Rs. 48,974,530. Therefore, an improvement amounting to Rs. 153,081,751 of the financial result was observed. The reasons for the improvement are the decrease in the impairment charges for loans and receivables amounting to Rs. 76,938,211, the decrease in the interest expenses amounting to Rs. 47,144,089 and the increase made in the interest income amounting to Rs. 23,972,379.

## 2.2 Trend Analysis of major Income and Expenditure items

The following table summarizes the financial results of the Company in the year under review and the preceding four years period.

Year -----	2020/2021 -----	2019/2020 -----	2018/2019 -----	2017/2018 -----	2016/2017 -----
Interest income(Rs.)	819,027,057	795,054,678	676,325,915	519,381,024	501,213,399
% of Increase / (Decrease) compared to the preceding year	3.02	17.55	30.22	3.62	
Interest expenses (Rs.)	218,015,318	265,159,407	240,935,082	198,966,597	174,673,850
% of Increase / (Decrease) compared to the preceding year	(17.78)	10.05	21.09	13.91	
Profit Before Tax (Rs.)	202,056,281	48,974,530	87,443,094	44,666,225	47,813,949
% of Increase / (Decrease) compared to the preceding year	312.57	(43.99)	95.77	(6.58)	

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 -----
Impairment charges for loans and receivables	(76,938,211)	(39.07)	Impairment Charge was decreased due to improvement in collections.
Interest expenses	(47,144,089)	(17.78)	The decline is mainly attributed to significant reduction in overdraft interest expense due to reduction business volumes amid the COVID-19 outbreak. Further, two loans were fully settled.
Other operational expenses	(25,863,893)	(16.31)	Due to Covid 19 pandemic, administration and operational activities of the company were considerably reduced. Staff cost was reduced due no replacements for resigned staff, Business promotions and legal cost also considerably reduced due to lockdown.

### 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>2020/2021</b>	<b>2019/2020</b>	<b>Reason for Increase/(Decrease)</b>
Net Profit Ratio	15.29%	3.03%	Impairment reversal increases the net profit of the company.
Return on Equity (ROE)	36.09%	10.89%	Impairment reversal increases the net profit of the company.
Return on Assets (ROA)	4.94%	0.89%	Impairment reversal increases the net profit of the company.
Debt to Equity Ratio	6.30	11.28	Increase of equity due to increase of profit and reduction of Short term Debt Position.