

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 2023 comprising the statement of financial position as at 31 March 2023 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 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 give a true and fair view of the financial position of the Company as at 31 March 2023, 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 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 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

Audit Issue	Management Comment	Recommendation
The current provision model calculates the credit related provisions based on the age of the customer as the days past due (DPD) is not available in the system. The age is arrived based on total arrears and it does not reflect the actual DPD.	Noted. We are expecting to develop system driven DPD calculation as soon as possible. However, the manual calculated DPD cover all formalities.	Take necessary actions to calculate DPD accurately.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 67,050,781 and the corresponding profit in the preceding year amounted to Rs. 276,623,242. Therefore, a deterioration amounting to Rs. 209,572,461 of the financial result was observed. The reasons for the deterioration are the increase in the interest expenses amounting to Rs. 329,378,473 and the decrease in the fee and commission income amounting to Rs. 37,760,450 despite the decline in the impairment charges for loans and receivables amounting to Rs. 158,378,342.

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	2022/2023	2021/2022	2020/2021	2019/2020	2018/2019
Interest income (Rs.)	765,081,162	793,186,355	819,027,057	795,054,678	676,325,915
% of Increase / (Decrease) compared to the preceding year	(3.54)	(3.16)	3.02	17.55	
Interest expenses (Rs.)	514,286,414	184,907,941	218,015,318	265,159,407	240,935,082
% of Increase / (Decrease) compared to the preceding year	178.13	(15.19)	(17.78)	10.05	
Profit Before Tax (Rs.)	67,050,781	276,623,242	202,056,281	48,974,530	87,443,094
% of Increase / (Decrease) compared to the preceding year	(75.76)	36.90	312.57	(43.99)	

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)	Variance	Reason for the variance
	(Rs.)		
Interest expenses	329,378,473	178.13	Interest expense has been increased due to increase of loan interest rate. People's Micro Commerce Limited's all interest bearing Long Term Loans as well as OD facilities are at variable rates. Due to the rapid increments in market interest rates in the Financial Year 2022/2023 compared to Financial Year 2021/2022, the interest expenses have been rapidly increased. (7.93%-10.21% in 2021/22 & 11.77%-33.09% in 2022/23).
Impairment charges for loans and receivables	(158,378,342)	(348.20)	The Company's due collection was rapidly increased in the Financial Year 2022/23 compared to Financial Year 2021/22. Due to that, Loss Given Default has been declined and the Probability of Default also declined.
Other operational expenses	(29,091,657)	(20.29)	The major components in Other operational expenses include business related expenses such as stationery, commission and business related promotional expenses. The Company's disbursement was drastically reduced due to the Group Policy to curtail businesses due to uncertainty occurred with Country's economic crisis and Country's national policies on import restrictions on vehicles (Company's main business was unregistered bicycles & 3 wheelers). In Financial Year 22/23 the total disbursement was Rs.716 million while Rs.1,757 million in 21/22 Financial Year.
Fee and commission income	(37,760,450)	(59.98)	Fee and commission income is directly link with the Company's business level/disbursement. In Financial Year 22/23 the total disbursement/business was Rs.716 million while Rs.1,757 million in 21/22 Financial Year. Therefore, business related fee & commission income was drastically reduced with the reduction in disbursement.
Interest income	(28,105,193)	(3.54)	Interest income has decreased because of the Company's disbursement has been curtailed drastically as per the Company & the group Policy.

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	2022/2023	2021/2022
Net Profit Ratio	8.48%	22.99%
Return on Equity (ROE)	13.08%	37.96%
Return on Assets (ROA)	2.54%	6.41%
Debt to Equity Ratio	4.14	4.92