

# Independent Auditors' Report



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## Independent Auditors' Report

### To the shareholders of SANASA Development Bank PLC Report on the Audit of the Financial Statements Opinion

We have Audited the Financial Statements of SANASA Development Bank PLC ("the Bank"), which comprise the Statement of Financial Position as at 31 December 2019, 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.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the*

*financial statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Statements.

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment allowance for loans and receivables</b></p> <p>Loans and receivables amounting to LKR 88.72 Bn. (Note 16), net of impairment allowance of LKR 2.90 Bn. (Note 16) consist of 80% of the total assets of the Bank as at 31 December 2019.</p> <p>The estimation of impairment allowance for loans and receivables involved significant assumptions, estimates and complex manual calculations. Significant estimates and assumptions used by the Management in such calculations and the basis for impairment allowance are disclosed in Notes 2.3.2.3 and 42.2 respectively.</p> <p>Impairment allowance for loans and receivables was considered a key audit matter due to the magnitude and significance of the assumptions involved.</p>	<p>To assess the reasonableness of the impairment charges, our audit procedures (among others) included the following:</p> <ul style="list-style-type: none"> <li>We evaluated design effectiveness of controls over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of significant judgements, estimates and assumptions in relation to the impairment by the Board Audit Committees and Management.</li> <li>In addition to the above, following key procedures were also performed:</li> </ul> <p>For a sample of loans and advances individually assessed for impairment:</p> <ul style="list-style-type: none"> <li>We tested for a sample of loans and advances where impairment indicators existed, reasonableness of Management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries.</li> <li>For loans and advances granted to customers in industries with elevated risk of credit loss, we assessed the main criteria used by the Management in its assessment of expected impairment losses and reasonableness of impairment made thereof.</li> </ul>

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
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Principal G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA  
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Key audit matter	How our audit addressed the key audit matter
	<p>For loans and advances collectively assessed for impairment:</p> <ul style="list-style-type: none"> <li>– We checked the completeness and accuracy of the underlying information and calculations thereon by agreeing details to the relevant source documents, information in IT systems and re-performing the calculations.</li> <li>– We also considered the reasonableness of macroeconomic and other factors used by Management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources.</li> </ul> <ul style="list-style-type: none"> <li>• We assessed the adequacy of the related financial statement disclosures as set out in Notes 2.3.2.3, 7, 16 and 42.2.</li> </ul>

**Preparation of financial statements inclusive of significant disclosures**

The Bank uses multiple IT systems in its operations. As a result, the preparation of financial statements inclusive of key disclosures are heavily dependent on information derived from those multiple systems. The process of preparing key disclosures involved generation of multiple system reports, collation, analysis and spread sheet based further calculation.

Accordingly, we considered the risk of any control lapses of the preparation of accounting and financial information as a key audit matter.

Our audit procedures included the following, amongst others:

- Understanding and evaluation of design effectiveness of key automated, IT dependent and manual controls implemented by Management over generation of multiple system reports and collation of required information on which the significant Financial Statements disclosures are based.
- Test-checking;
  - the reports used to generate significant disclosures for accuracy and completeness;
  - source data with those of the reports generated from the related systems;
  - calculations made by Management;
  - reasonableness of categorisations made by Management;
- Assessing if the significant disclosures are being made in line with applicable accounting standards.
- Where we considered necessary, performing additional substantive audit procedures on selected disclosures.

**Other information included in the Bank's 2019 Annual Report**

Other information consists of the information included in the Bank's 2019 Annual Report, other than the Financial Statements and our Auditor's Report thereon. Management is responsible for the other information. The Bank's 2019 Annual Report is expected to be made available to us after the date of this Auditor's Report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our 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 our knowledge obtained in the audit or otherwise appears to be materially misstated.

**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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs 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 SLAuSs, we exercise professional judgement and maintain professional scepticism throughout the audit. We 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 our 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 Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Bank 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on other legal and regulatory requirements**

As required by Section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditor's Report is 2097.



26 February 2020

Colombo