

## **BOC Travels (Pvt) Limited - 2016**

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The audit of the financial statements of the BOC Travels (Pvt) Limited (“the Company”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, 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.

This report is issued in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

### **1.2 Board’s Responsibility for the Financial Statements**

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The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditors’ Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **2.1.1 Report on Other Legal and Regulatory Requirement**

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As required by Section 163(2) of the Companies Act, No 07 of 2007, I state the followings:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion:
  - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
  - The financial statements of the Company comply with the requirements of the Section 151 of the Companies Act, No 07 of 2007.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Accounting Deficiencies**

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Disallowable expenses such as occasional gifts, sponsorship etc, aggregating Rs. 1,091,650 had been deducted when calculating the taxable income. Hence, the income tax expense for the year under review had been understated by Rs.305,662.

#### **2.2.2 Lack of Evidence for Audit**

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Out of total debtor balance of Rs.122,058,073 as at 31 December 2016, balances aggregating Rs.31,148,364 could not be verified due to non-availability of direct confirmation.

### **2.3 Accounts Receivable and Payable**

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#### **(a) Un-presented Cheques**

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According to the statement of financial position as at the end of the year under review the un-presented cheques valued at Rs.1,702,009 had been included in other payable balances shown under the current liabilities. It comprising the cheques valued at Rs.1,598,873 and amount this a total value of Rs.1,590,505 issued by the Company during the period of 2012 to 2015 was included.

**(b) Un-settled Balances**  
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The following observations are made.

- (i) The Company maintains a refund payable account by including amounts given by customers who have cancelled tours booked by them. Out of the total balance of Rs.12,736,429 as at the end of the year, a sum of Rs.1,237,985 was representing the amounts payable to Government organizations. The Company had taken no action to settle the above balances to the customers within a reasonable time period.
- (ii) The Company has maintained an account called Advance Received from Customers and the balance in this account as at the end of the year under review was Rs.14,680,125. A sum of Rs. 7,229,469 or 49 per cent of the above balance represents the advance received from Government institutions. However, the Company had not followed effective action to settle these long outstanding balances within a reasonable time period.
- (iii) Long outstanding payable balances totaling Rs. 2,745,918 had been identified as miscellaneous income during the year under review with the approval of the Board of Directors.

In this connection the management of the Company had informed to the audit that it is a practice of the company to recognize the balances of Un-presented cheques, refund payables, advance received from customers and other payables those over five years ago are being identified as an income in the current year. Accordingly the above balances prior to 2012 had already been recognized as an income without informing to customers.

**(c) Un-recovered Value Added Tax (VAT)**  
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Necessary actions had not been taken to recover the VAT receivable balance amounting to Rs.4,877,074 as at 31 December 2016.

**(d) Disputed Balances**  
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The following debtor balances as at the end of the year under review were not agreed with the balances confirmed by debtors.

<b>Name of Debtor</b>	<b>Balance as per Ledger Account</b>	<b>Balance as per Confirmation</b>	<b>Difference</b>
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	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Parliament of Sri Lanka	2,624,702	846,400	1,778,302
Office of the Prime Minister	1,323,443	Nil	1,323,443

### 3. Financial Review

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#### 3.1 Financial Results

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According to the financial statements presented, the operations of the Company had resulted in a pre-tax net profit Rs. 33.29 million during the year under review as compared with the corresponding pre-tax net profit of Rs. 40.01 million for the preceding year, thus indicating a deterioration of Rs. 6.72 million or 16.79 per cent in the financial results. Decrease of sales revenue from Rs.80.4 million in 2014 to Rs.74.48 million in the year under review was the main reason attributed for this deterioration in the financial results.

#### 3.2 Analytical Financial Review

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##### 3.2.1 Profitability

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The following table indicates a summary of the financial results of the Company in the year under review and the preceding four years.

Year	Rs. in '000'				
	2016	2015	2014	2013	2012
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Revenue	74,488	72,978	80,400	73,655	67,961
Profit after tax	26,517	32,745	27,020	35,045	42,674

The following observation is also made in this regard.

Although the profit of the Company had significantly decreased from Rs. 42.67 million in the year 2012 to Rs.26.51 million or by 37 per cent in the year under review, the Company had not paid considerable attention to increase its profitability.

##### 3.2.2 Significant Accounting Ratios

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According to the financial statements and information made available for audit, certain important ratios for the year under review as compared with the proceeding 04 years are given below.

<b>Ratio</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
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<b>Profitability Ratios (Percentage)</b>					
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Net Profit Ratio	2.3	3.0	2.6	3.9	5.7
Return on Total Assets	11	15	15	20	28
Return on Equity	15.7	21	19.5	26.7	38.9
<b>Activity Ratios</b>					
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Debtor Turnover Ratio (Number of Times)	12	19	17	15	21
Debtor Turnover Period (days)	29	19	21	23	17
<b>Liquidity Ratios – (Number of Times)</b>					
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Current Ratio	3.53	3.83	4.7	4.26	3.35
Net Current Assets to Total Assets	0.67	0.70	0.72	0.69	0.62

#### **4. Operating Review**

##### **4.1 Performance**

The primary objectives of the Company are to carry on the business of travel agent, tour operator, general sales agent and provide facilities to tourists visiting Sri Lanka or residents of Sri Lanka travelling abroad. Accordingly the performance of the Company on the main activities carried out in the year under review and in last five years is as follows.

<b>Year</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
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<b>(a) General Ticketing</b>					
Number of air tickets issued	19,845	20,438	18,513	19,000	17,391
Total Revenue (Rs. 000)	1,368,562	1,282,015	1,257,283	1,138,849	1,125,507
Number of air tickets returned	356	294	324	297	218
Total amount returned (Rs. 000)	52,745	43,633	50,160	41,222	28,963
<b>(b) Dambadiwa Tours</b>					
Number of tours organized	27	22	19	15	20
Total Revenue (Rs. 000)	72,214	54,053	48,196	33,621	39,065

<b>(c) Inbound Tours</b>					
Number of tours organized	16	25	24	14	27
Total Revenue (Rs. 000)	2,965	4,890	5,546	3,009	11,153
<b>(d) Outbound Tours</b>					
Number of passengers traveled	642	520	658	608	591
Total Revenue (Rs. 000)	32,525	21,150	35,906	28,866	14,700

The following observations are made in this regard.

- (i) Number of air tickets issued in the year 2016 had been decreased by 3 per cent, as compared with the preceding year.
- (ii) Number of inbound tours had significantly decreased by 36 per cent in the year under review as compared with the preceding year. However, number of outbound tours had been increased by 23 per cent as compared with the preceding year.
- (iii) The Company had incurred a huge cost for the inbound tours during the year 2016 and as a result, the profitability of these tours was not in a sufficient level. The income of inbound tours was Rs. 2,965,264 and cost of sales was Rs. 2,634,556.

Even though, as per the annual budget, the Company expected to earn a profit of Rs. 2,600,000 by this activity, the actual profit was only Rs. 330,708 and it was declined by 67 per cent as compared with the profit of Rs. 1,003,795 in 2015.

#### **4.2 Transactions of Contentions Nature**

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The Company had spent a sum of Rs. 1,814,124 during the year 2016 as overseas traveling expenses. It was observed that, only two officers had participated in all four programs relating to the inbound tour promotions activities carried out during the year 2016 and it represent 74 per cent of the total overseas traveling expenses.

#### **4.3 Management Weaknesses**

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The following observations are made.

- (i) Out of total trade debtor balances of Rs. 122,058,073 an amount of Rs. 87,895,289 or 72 per cent represent was receivable from government organizations. As per the credit policy manual, 60 days credit period was given to the Government institutions. However, the Company was unable to collect the outstanding balances within the given credit period. It was observed that, out of total outstanding balance, a sum of Rs.25,182,979 or 28 per cent had exceeded 90 days. It was further observed that, the Company had not taken effective action to recover these long outstanding debtor balances.

- (ii) During the year 2016, a sum of Rs. 3,065,983 had been written off by the Company as bad debts. Out of these balances, 75 per cent represents personal transactions done by four employees of the Company.

## **5. Accountability and Good Governance**

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### **5.1 Action Plan**

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An Action Plan for the year under review had not been prepared by the Company. However, a business plan had been prepared for the year 2016 instead of an Action Plan.

### **5.2 Audit and Management Committee**

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Audit and Management Committee meeting had not been held by the Company during the year under review as requested by Section 7.4.1 of the Public Enterprises Circular No.PDF/12 of 02 June 2003.

### **5.3 Budgetary Control**

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Significant variations were observed between the budgeted and actual income and expenditure; as such the budget had not been made use of as an effective instrument of management control.

## **6. Systems and Controls**

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Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of Control</b>	<b>Observations</b>
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(a) Maintenance of Records/ Registers	Instead of maintaining receivable balance in the name of each customer, the Company maintained a schedule which includes balances in the name of employees who handles number of customers.
(b) Revenue Recognition	Advance received from customers and refunds payable to customers were identified as income after five years period without getting confirmed from the customers.
(c) Collection of Dues from Customers	Receivable from Government institutions was not collected within the credit period.