

## **People's Travels (Pvt) Ltd – 2017/2018**

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The audit of the financial statements of the People's Travels (Pvt) Ltd ("Company" ) for the year ended 31 March 2018 comprising the statements of financial position as at 31 March 2018 and the statements of comprehensive income, statements of changes in equity and statement of cash flow 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 risk of material misstatements 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

### 2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2018, 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

As required by section 163(2) of the companies Act No. 07 of 2007, I state the followings:

- (a) The basis of opinion and limitations of the audit are as stated above.
- (b) In my opinion :
  - I have obtained all the information and explanation that 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

#### 2.2.1 Lack of Evidence for Audit

The following documentary evidence as indicated against each items shown below were not made available for audit.

| Items of Accounts | Amount<br>Rs. | Evidence not made available |
|-------------------|---------------|-----------------------------|
| Debtors           | 70,025,118    | Balance confirmation        |
| Rent Expense      | 65,000        | Agreement                   |

#### 2.2.2 Accounts Receivable and payable

- (a) As per the credit policy of the Company, the debtor credit period is 15 days. However, staff debtor amounting to Rs. 2,281,064 and corporate debtors amounting to Rs. 31,262,275 have been outstanding for more than one month without being recovered.
- (b) Rs. 1,876,678 had been recorded as refund payable balance as at 31 March 2018 and out of that Rs. 939,452 or 50 per cent outstanding for more than one year.
- (c) The Company transferred unidentified cash deposits to creditor air tickets account as a practise. As at 31 March 2018 amount of Rs. 1,692,497 remaining in creditor air ticket account without being reconciled.

### 2.2.3 Non – Compliance with Laws, Rules, Regulation and Management Decisions

The following instance of non –compliance was observed in audit.

#### Reference to Laws, Rules, Regulations and Non-Compliance Management Decisions etc

Section 117 of inland Revenue (Amendment) Act No.10 of 2006.

The Company had deducted a lesser amount of Rs. 33,600 as the Pay as You Earn (PAYE) tax on director's remuneration.

### 3 Financial Review

#### 3.1 Financial Results

According to the financial statements presented, the operations of the Company had recorded a pre-tax net profit Rs.19,312,785 as compared with the corresponding pre-tax net profit of Rs.15,479,011 for the preceding year, thus indicating increases of Rs.3,833,774 or 24.7 per cent in the financial results of the year under review. Increase of income from tours, commission on refund and commission on insurance and interest income by Rs.6,374,479 was the main reason attributed for this improvement in the financial results.

#### 3.2 Analytical Financial Review

##### 3.2.1 Significant Accounting Ratios

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

|  | 2017/18 | 2016/17 | 2015/16 | 2014/15 | 2013/14 |
|--|---------|---------|---------|---------|---------|
| <b>Ratios</b>                            |         |         |         |         |         |
| <b>Profitability Ratios (percentage)</b> |         |         |         |         |         |
| Net profit Ratio (NPRatio)               | 31.99   | 26.67   | 24.64   | 22.83   | 25.45   |
| Return on Total Assets (ROA)             | 9.64    | 9.13    | 9.43    | 10.24   | 11.89   |
| Return on Equity (ROE)                   | 19.37   | 17.94   | 18.51   | 19.19   | 22.90   |
| <b>Activity Ratio</b>                    |         |         |         |         |         |
| Debtor Turnover Ratio (number times)     | 0.63    | 0.77    | 1.02    | 1.05    | 1.15    |
| <b>Liquidity Ratio</b>                   |         |         |         |         |         |
| Current Ratio (number of times)          | 1.50    | 1.47    | 1.38    | 1.45    | 1.44    |

Following observations are made in this regard.

- I. Even though company's Current Ratio had increased during last four years, it records the below of standard ratio of 2 which accepted for well working capital management.
- II. Debtor Turnover Ratio had decreased from 1.15 in the year 2013/2014 to 0.63 in the year 2017/2018. This reflecting the poor debt collecting process.

#### **4 Operating Review**

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##### **4.1 Performance**

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To carry on business as a travel agent and a commission agent was the main objective of the Company. However, a corporate plan and Action plan had not been prepared and presented to the audit. Further, annual target on key performance indicators (KPI's) had not been set out by the company. Therefore, it was unable to assess the actual performance of the company as compared with expected targets.

##### **4.2 Management Weaknesses**

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###### **4.2.1 Outstanding from Government Institutions**

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Out of total debtor balance of Rs.85,413,407, an amount of Rs.61,588,701 or 72 per cent represent receivable from Government institutions. As per the credit policy, credit period given to government institutions is 15 days. However, the company was unable to collect the outstanding balance within the relevant credit period. Out of total outstanding balance of government organizations, a sum of Rs.8,024,327 or 13 per cent had exceeded 90 days of credit period.

###### **4.2.2 Revenue**

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###### **a) Commission on Air Ticket Sales, Income from Hotel Reservation Outbound, Income from Visa, Income from Insurance**

- i. Commission on air ticket sales includes document charge, admin fee and commission from International Air Transport Association (IATA) for the air tickets purchase and income from visa includes commission, document charge and admin fee. Also income from hotel reservation outbound and insurance includes document charge and admin fee. However PTL does not apply standard rates or amounts for document charge and the admin fee on invoices of those income sources.
- ii. Certain instances were observed where discount given were higher than the IATA commission which resulted for loss.
- iii. It was observed that 402 nos. of invoices for Commission on air ticket sales, 52 nos. of invoices for income from visa and 27 nos. of invoices for income from insurance had issued during the period from 01 April 2017 to 31 March 2018 without any income to the company.

**b) Income from refund**

Certain instances were observed where the company does not collect standard refund charge on refunds made to clients.

**c) Income from Tours**

- i. Even the company has maintained a file for each tour separately, the file does not include all the necessary documents such as approved budget of the tour, finalized list of the customers and copies of the all relevant documents related to cost and cash collection. Further the file had not been properly indexed.
- ii. The airline cost of some tours had not been transferred to relevant CLT accounts and those balances shown under the trade debtors in financial statements as at 31 March 2018.
- iii. Though the company has incurred airline cost for some tours without collecting any advances from the client, no any CLT accounts have opened for the same tours as at the date of audit conducted. Further those balances shown under the trade debtors in financial statements as at 31 March 2018.
- iv. As a practice of the company, full amount of tour charge should be from the customers before the commencement of tour. However we observed that some customers had paid tour charge after the completion of tour.
- v. Although tour profit is the main income of the Company, the particular tour had generated a total loss of Rs.2,077,165 during the year under review.

**5 Accountability and Good Governance**  
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**5.1 Audit Committee**  
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Audit and management committee meetings had not been held by the Company during the year under review.

**5.2 Budgetary Control**  
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- i. Annual Budget for capital items had not prepared for the period under review. Further company had purchased capital items without any board approval.
- ii. Following deviations were noted in financial highlights between the budget and the actual financial performance in the current year.

|                     | <b>As per the Budget<br/>Rs.</b> | <b>Actual<br/>Rs.</b> | <b>Variation<br/>Rs.</b> |
|---------------------|----------------------------------|-----------------------|--------------------------|
|                     | -----                            | -----                 | -----                    |
| Profit before tax   | 23,600,450                       | 19,312,785            | 4,287,665                |
| Operating<br>Income | 63,015,000                       | 52,628,211            | 10,386,789               |

## 6 System and Control

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Special attention is needed in respect of the following areas of control.

| <b>Control Area</b> | <b>Observations</b>  |
|---------------------|--|
| -----               | -----  |
| a) Accounting       | <p>The company has maintained a separate ledger account which named as CLT accounts for each tour to calculate profit or loss and separate expense account for each tour to debit certain expense instead of debiting to the CLT account. Those CLT account balances have been transferred to revenue (Income from tours) and balances of separate expense accounts of each tour have been transferred to distribution cost which had not consider for calculating tour profit separately. Hence profit from tours were overstated. Further bank charges related to tours which can be identified tour wise included in finance cost of the company and those bank charges had not taken to calculate the tour profit separately.</p> <p>Although certain tours were already completed and profit and loss account from CLT, further balances were remaining in CLT account as at 31 March 2018. Ex-CLT 245-Rs.223,500 , CLT 256-Rs.391,200 Australia &amp; New Zealand tour has been already completed however tour loss amounting Rs.815,994 has not been identified by the company as at the date of audit conducted.</p> |

- b) Trade and Other Receivables      Instead of maintaining receivable balances under the name of the each customer, the company identified balances under the name of the employees who handles customers.
- The company had granted an interest free staf loan to an employee on 30 January 2018 amounting to Rs.74,700 with agreeing to make payments from 12 instalments and even the company had deducted the first instalment from the salary month of February, second instalment had not deducted in the month of March.
- c) Trade & Other payables      It was observed that in certain instance where balances of refund payable account had been transferred to debtor account without identifying at the same time.
- d) Cash & Cash Equiments      Certain instances were observed where the considerable cash balance in daily cash. The company had not taken an insurance coverage. Therefore keeing such large amount as daily cash in hand balance without taking an insurance coverage may create a risk to the company.
- e) Authorization      In the sample audit, it was observed that signatures for preparation or/and authorization of invoices were not available in certain invoices.