

BOC Travels (Pvt.) Limited -2019

1.1 Opinion

The audit of the Financial Statements of the BOC Travels (Pvt) Ltd (“Company”) for the year ended 31 December 2019 comprising 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, 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 December 2019, 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 Auditor’s Responsibilities 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 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 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 Financial Statements

1.5.1 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
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Direct confirmations had not received from 14 No. of trade debtors aggregating to Rs.82,051,455 and therefore it was unable to reconcile the balance as per relevant debtor's records with the company's system in order to ensure the existence of such debtor balances as at 31 December 2019.	Most of these figures have been cleared fully or partially in subsequent months. From the time these letters are sent our staff makes their full effort to get the confirmation and some of these clients have confirmed verbally that these letters have been responded.	Recommended to obtain confirmation from trade debtors to reconcile the receivable balance with their records in order to have accurate financial figures in the financial statements.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
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(i) The Company does not have a proper credit policy in order to control the credit period and value given to the customers. As a result, out of total outstanding debtor balance of Rs.9,448,992 recorded under three individual handling officer's accounts, Rs.3,788,079 was outstanding more than 360 days as at 31 December 2019 which may adversely affect for the working capital requirements of the company.	Outbound travel is the only market segment which relies heavily on credit sales. Stringent controls on credit could adversely affect on sales due to the heavy competition in the market. Even the collection process is made cumbersome to staff more often by the private and government clients for their advantage.	Recommended to implement proper control over credit sales and debt recovering process.
(ii) It was observed that other receivable balances of, payment in advance, DAM refund receivable and suspense accounts recorded outstanding balance of Rs.3,827,711, Rs.410,400 and Rs.3,002 respectively as at 31 December 2019.	Comment Noted. <u>Payment in Advance</u> Prepayments are accounted under this account. After realization those amounts will be charged to expense account accordingly.	Recommended to take actions to recover the long outstanding balances or write off if no further recovery is

Out of those balances Rs.443,817, Rs.410,400 and Rs.3,002 respectively are in the same account for more than 1 year period.

Satisfactory actions have not been taken by the company to recover the long outstanding balances or write off if no further recovery is expected.

DAM Refund Receivable

This is a non-refundable deposit which made to Sri Lankan Airline for Dambadiva Pilgrimage tours. Still in discussion level.

If refund not received cost will be charged to profit and loss account with approval of director board.

Suspense Account

This is an over charged VAT amount by Bank of Ceylon. If not receiving will be charged to profit and loss account with approval of the director board.

expected.

1.6.2 Payables

----- Audit Issue -----	Management Comment -----	Recommendation -----
(i) A long outstanding trade creditor's balance of Rs.175,185 relevant to 08 trade creditors were observed.	Comment Noted. Up to now no inquiry received from either sales	Recommended to evaluate and take actions to clear the long outstanding balances.
(ii) It was observed that the balances aggregating to Rs.1,441,777 relevant to eight other payable accounts are remain in the same account for more than five years period. Actions have not been taken by the Company to reassess the actual liability and if there is no any actual liability to write off the long outstanding balance after obtaining relevant approvals. The details of the long outstanding balances are given below.	staff or passengers or relevant air lines. As per company practice after 5 years remaining balance will be charged to profit and loss account with approval of the Director Board.	

Description -----	Balance as at 31 December 2019 ----- (Rs.)	Long Outstanding Balance (Exist more than 05 Years Period) ----- (Rs.)
Refundable Payables	9,157,714	676,28
Advance received	4,246,486	617,79

from customers Un- identified Credit by Bank Advance received from DAM Tours	1,974,514	95,850
Advance received from customers - Wellawatte Advance received for Outbound Tours	5,899,189	22,370
Advance received from customers - Wellawatte Advance received for Outbound Tours	2,208,521	10,000
Advance received from customers - Wellawatte Advance received for Outbound Tours	3,679,947	19,474
Total	27,166,371	1,441,777

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.29,656,000 and the corresponding profit in the preceding year amounted to Rs.30,151,000. Therefore, a deterioration amounting to Rs.495,000 of the financial result was observed. The main reasons for the deterioration were increase of cost of sales and administrative expenses and decrease of net finance income during the year under review when compared with the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review as 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
Revenue	30,081,000	13.6	Increase of income from general ticketing, outbound tours and outbound hotel accommodation and dambadiva tours during the year under review when compare with the previous year were the main

reasons for the revenue increase of the year under review.

Administrative Expenses	12,176,000	12.8	Increase of salaries and wages by 20 per cent during the year under review when compare with the previous year.
Finance Income	1,269,000	7.1	Finance income has increased due to exchange gain of Rs.1,221,000 obtained during the year under review.
Finance Cost	3,700,000	137.5	Finance cost has increased due to interest expense recognized during the year under review on the lease liability recognized under SLFRS 16.

2.3 Ratio Analysis

According to the Financial Statements and information made available to audit, certain important ratios of the company for the year under review as compared with the proceeding 03 years period are given below.

Ratio -----	Year -----				
	2019 -----	2018 -----	2017 -----	2016 -----	2015 -----
Profitability Ratios					
Net profit ratio	1.57	1.77	2	2.3	3.0
Return on Total Assets	7.37	8.92	10	11	15
Return on Equity	11.48	12.17	13.4	15.7	21
Activity Ratios					
Debtor Turnover Ratio	13	14	16	12	19
Debtor Turnover Period (Days)	28	27	23	29	19
Liquidity Ratios (No. of Times)					
Current Ratio	3.5	4	4.44	3.53	3.83
Net Current Assets to Total Assets	0.6	0.67	0.73	0.67	0.70

It was served that all the profitability ratios were gradually decreased during the past 05 years period since 2015.