

## **People's Travels (Pvt) Ltd -2016/2017**

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The audit of the financial statements of the People's Travels (Pvt) Ltd ("the Company") for the year ended 31 March 2017, comprising the statement of financial position as at 31 March 2017 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 issue in terms of provisions in 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 control. 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 March 2017, 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 Requirements

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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 Section 151 of the Companies Act, No.07 of 2007.

### 2.2 Comments on Financial Statements

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#### 2.2.1 Accounting Policies

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Under the accounting policies, it is required to mention all income generating areas of the Company. However, income earned from hotel reservation, visas and refunding had not been mentioned under the accounting policies of the financial statements.

#### 2.2.2 Lack of Evidence for Audit

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

<b>Items of Accounts</b>	<b>Amount</b>	<b>Evidence not made available</b>
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-	<b>Rs.</b>	
Debtors	64,445,735	Balance confirmation
Rent Expense	65,000	Agreement
Foreign Travelling Expenses	171,635	Relevant documents to verify expenses such as program schedule, copies of air ticket passports and details of participation etc.

### 2.3 Accounts Receivable and Payable

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As per the credit policy of the Company, the debtor credit period was 15 days. However, staff debtors amounting to Rs.2,598,070 and corporate debtors amounting to Rs.3,429,979 have been remained for more than one month without being recovered.

### 2.4 Non-Compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non-compliance were observed in audit.

<b>Reference to Laws, Rules, Regulations and Management Decisions etc.</b>	<b>Non-Compliance</b>
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(a) Inland Revenue (Amendment) Act No.10 of 2006	
i). Section 117	The Company had not deducted the Pay As You Earn (PAYE) tax of Rs.11,000 on director's fees.
ii). Section 114	(i). The transport allowance which regularly paid had not been considered for the deduction of PAYE tax.  (ii). According to the provisions in the Act, the bonus payment is considering as a lump-sum payment and PAYE tax should be deducted accordingly. However, the Company had not complied with this.
(b) Stamp Duty Act No. 12 of 2006 as amended by (amendment) Acts, No.10 of 2008 and 13 of 2011.	A receipt or discharge given for any money or other property should charge Rs.25.00 when amount is exceeding Rs.25,000. However the Company had not considered all relevant receipt or discharge for the purpose of deducting the Stamp Duty.

## 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 recorded a pre-tax net profit of Rs.15,479,011 as compared with the corresponding pre-tax net profit of Rs.13,462,229 for the preceding year, thus indicating an improvement of Rs.2,016,782 or 14.98 per cent in the financial results of the year under review. Increase of income from hotel reservation and other tours and interest income by Rs. 2,198,444 or 15.07 per cent was the main reason attributed for this improvement in the financial results.

### 3.2 Analytical Financial Review

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#### 3.2.1 Significant Accounting Ratios

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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.

<b>Ratios</b>	<b>2016/2017</b>	<b>2015/2016</b>	<b>2014/2015</b>	<b>2013/2014</b>	<b>2012/2013</b>
<b>Profitability Ratios (percentage)</b>					
Net Profit Ratio (NP Ratio)	26.67	24.64	22.83	25.45	27.04
Return on Total Assets (ROA)	9.13	9.43	10.24	11.89	9.76
Return on Equity (ROE)	17.94	18.51	19.19	22.90	21.79
<b>Activity Ratio</b>					
Debtor Turnover Ratio (number of times)	0.77	1.02	1.05	1.15	1.10
<b>Liquidity Ratios</b>					
Current Ratio (number of times)	1.47	1.38	1.45	1.44	1.13

The following observations are made in this connection

- (a) The Company's Current Ratio during last four years was below the standard ratio of 2 which accepted for well working capital management.
- (b) Debtor Turnover Ratio had decreased from 1.10 in the year 2012/2013 to 0.77 in the year 2016/2017. This reflecting the poor debt collecting process and bad credit policy of the Company.

### 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 as per Section 5.1.3 of the Public Enterprise Circular No. PED/12 dated 02 June 2003 had not been prepared and submitted to the Auditor General by the Company. Further, Annual Targets 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 trade debtor balance of Rs.69,779,197, an amount of Rs.57,361,326 or 82 per cent representing the receivable from Government Organizations. As per the credit policy, the credit period given to those organizations is 15 days. However, out of total outstanding balance of these organizations, a sum of Rs. 5,182,959 or 9 per cent had exceeded 90 days of credit period. It was further observed that, the Company had not taken effective action to recover the long outstanding debtor balances.

### 4.2.2 Revenue

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Although tour profit is the main income generator of the Company, the following tours had generated a total loss of Rs. 1,305,914 during the year to the Company. Details are shown below.

<b>Tour</b>	<b>Period</b>	<b>Amount of Loss</b>
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		<b>Rs.</b>
CLT 205 – UK	30/07/2016 – 22/07/2016	1,274,474
CLT 216 - DAM	12/10/2016 – 22/10/2016	31,440
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		1,305,914
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## 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 as per Section 7.4.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.

### 5.2 Budgetary Control

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Significant variances ranging from 7 per cent to 21 per cent were observed between the budgeted and the actual income for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

## 6. Systems and Controls

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Deficiencies observed in the systems and controls of the Company 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.

**Control Area****Observations**-----  
a) Accounting

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- Although separate ledger accounts maintained for each tour to calculate profit or loss, certain instances were observed that journal entries had been passed between current liability tour ledger accounts to avoid losses on respective tour accounts.
  
  - The journal entries passed by the Company were not approved by authorized officer of the Company. Therefore, the dual controlling system of journal entry passing had not been available.

## b) Tours

Even though the Company maintains 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, copies of the all relevant documents etc. Further the file was not properly indexed.

c) Trade and Other  
Receivables

Instead of maintaining receivable balances under the name of each customer, the Company maintained a schedule which includes balances under the name of employees who handles customers.

d) Cash and Cash  
Equivalents

Cash book account of cash in hand (BA005) is a collection account and daily collection is deposited in People's Bank Queen's branch at the end of each day and collection after 3.00 p.m. is deposited in the following day. However, certain instances were observed where the cash is kept in hand for one to two days without depositing to the bank on same day.