BOC Travels (Pvt.) Limited - 2017

The audit of the financial statements of the BOC Travels (Pvt) Limited ("the Company") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows 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. My comments and observations which I consider should be furnished to the Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka on the operations of the company for the year under review appear in this report.

1.2 Board's Responsibility for the Financial Statements

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

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

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 December 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 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 scope 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 Non – Compliance with Laws and Regulations

The following non-compliance with Laws, Rules and Regulations were observed in audit.

	Reference to Laws, Rules and Regulations	Non- compliance
(a)	Nation Building Tax Act, No. 9 of 2009	The Company had paid NBT on the Profit Margin other than paying on total revenue.
(b)	Value Added Tax Act No. 14 of 2002	(i) The Company had not deducted the output VAT amounting to Rs. 764,079 for the year 2017 from the turnover and considered as an expense under administrative expenses (ii) Although the tax liability should be calculated on the taxable VAT supply, tax liability had been calculated on the profit margin.
(c)	Sub section (6) of section 20 of Value Added Tax Act No. 14 of 2002	Tax Invoices had not been issued by the company to Government institution, Provincial council, Local government institution, or any public corporation.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company had resulted in a pre-tax net profit Rs. 30.31 million during the year under review as compared with the corresponding pre-tax net profit of Rs. 33.29 million for the preceding year, thus indicating a deterioration of Rs. 2.98 million or 8.95 per cent in the financial results. Decrease of sales revenue by Rs. 2.20 million and other income by Rs.9.20 million compared with the previous year was the main reason attributed for this deterioration 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 important ratios for the year under review as compared with the proceeding 04 years are given below.

Ratio	2017	2016	2015	2014	2013
Profitability Ratios (Percentage)					
Net Profit Ratio	2	2.3	3.0	2.6	3.9
Return on Total Assets	10	11	15	15	20
Return on Equity	13.4	15.7	21	19.5	26.7
Activity Ratios					
Debtor Turnover Ratio	16	12	19	17	15
Debtor Turnover Period (days)	23	29	19	21	23
Liquidity Ratios – (Number of Times)					
Current Ratio	4.44	3.53	3.83	4.7	4.26
Net Current Assets to Total Assets	0.73	0.67	0.70	0.72	0.69

(a) The Company's profitability had decreased drastically during last five years.

(b) Liquidity Ratio of the Company was higher than the acceptable level. It reflected that the Company had not managed working capital of the Company at a satisfactory level.

4. Operational Review

4.1 Performance

4.1.1 Planning

A corporate plan and action plan had not been prepared by the Company for the year under review.

4.1.2 Operating and Review

The following observations are made in this regard.

(i) Number of air tickets issued in the year 2017 had decreased by 4.6 per cent, as compared with the preceding year.

(ii) Number of inbound tours had increased drastically by 387 per cent in the year under review as compared with the preceding year. However, number of outbound tours had decreased by 47 per cent as compared with the preceding year.

4.2 Management Activities

(a) Out of total trade debtor balance of Rs. 97,044,447, an amount of Rs.62, 998,432 or 65 per cent represents receivable from government organizations. Although 60 days credit period was given to the government institution as per the credit policy manual, the company had failed to collect the outstanding balances within the given credit period. Out of total written off balance of Rs.1,950,687 during the year 2017, a sum of Rs. 1,794,632 or 92 per cent represents receivables from government organizations.

(b) Although the company had obtained services from an Indian travel agent for facilitating hotels, meals, transport, guide etc for Dambadiwa tours. It had not been entered into an agreement with the said travel agent by including duties and responsibilities of both parties.

(c) For the purpose of covering medical and accidental risk on Dambadiwa tours, the company offers a travel insurance policy obtained from Oriental Insurance Limited. However, agreement entered by the company with the above mentioned insurance company had been expired on 10 July 2015 and had not been extended up to the date of this report.

(d) Sales revenue had decreased due to decrease in sales of outbound tours including Dambadiva tours.

5. Accountability and Good Governance

5.1 Audit and Management Committee

Audit and Management Committee meeting had not been held by the Company during the year under review as required by the clause 7.4.1 of the Public Enterprise Circular No. PED/12 dated 02 June 2003.

5.2 Budgetary Control

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

6. Systems and Controls

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.

Areas of Control	Observation
(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	(i) Advance received from customers and amounts payable to customers in the events of tours had cancelled had been identified as income after five years without getting confirmed from the customers. (ii) Income being recognized at the date of racing invoice without considering the completion of the transaction.
(c) Invoicing	(i) The Company had raised two or more than two invoices to one customer when taking different service from the company at a time. (ii) Cash invoices only being raised for both cash and credit transactions.
(d) Capitalization of expenses	Expenses which should be capitalized not being identified properly.
(e) Accounting System	Accounts codes not being used in the system.
(f) Journal Entries	Delegation had not been fixed for the process to pass journal entries.