

1.1 Opinion

The audit of the Financial Statements of the BOC Travels (Pvt) Ltd (“Company”)for the year ended 31 December 2018 comprising the Statement of Financial Position as at 31 December 2018 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 2018, 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 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendation
<p>Direct confirmations which we called during the audit had not been received from 21 institutions.</p> <p>Value receivable from above institutions was amounting to Rs.75,667,573. Out of above balance, Rs. 35 million or 50 percent was receivable from Ministry of Foreign Affairs and Presidential Secretariat.</p>	<p>Shall follow up with the above mentioned customers to ensure that whatever possible confirmations are send back to you. Most of these figures mentioned have been cleared fully or partly in the subsequent month. It should be noted that many of the above institutions are government entities and we have observed that many of these government entities do not send replies for such confirmation even though constant reminders are given to them.</p>	<p>Should provide with the required confirmations.</p>

1.5.2 Payable

	Audit Issue	Management Comment	Recommendation
a	<p>Long outstanding balances totaling to Rs. 175,185 and Rs. 11,512,848 were observed in the trade creditor and other payable balance respectively as at the end of the year under review.</p>	<p>Up to now no inquiry received from either sales 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 director board.</p>	<p>Should evaluate whether there is an actual liability for the long outstanding balances and if there is no actual obligation or cash outflow, the balances need to be written back.</p>
b	<p>Unpresented cheque balance amounting to Rs. 141,499 was categorized under other payable balance.</p>	<p>The amount remaining under Unpresented Cheques for year 2015 & 2016. After 5 years with approval of board of directors this amount will be charged to profit and loss.</p>	<p>Should reconcile the balances and corrective measures should be taken.</p>

1.6 Non -compliance with Tax Regulation

Audit Issue	Management Comment	Recommendation								
<p>a According to the Economic Service Charge Act No. 13 of 2006, every person or partnership should register for ESC if the liable turnover of a quarter is Rs. 50 million or more during the period from 01.04.2011 to 31.03.2017 and Rs. 12.5 million for any quarter commencing on or after 01.04.2017.</p> <p>However, Even though the Company has met the threshold for first two quarters, it was observed that ESC has not been paid for those quarters of the year commencing 2018.</p>	<p>Now comply with ESC Act and pay ESC accordingly as advised by tax consultant BDO.</p>	<p>To comply with the Economic Service Charge Act and pay the ESC on or before the due dates.</p>								
<p>b There is a difference between VAT receivable balance in the ledger account and the VAT return.</p>	<p>As per advice by Tax Consultant BDO, we finalized VAT for 2018 and filed the- VAT Return for 4th quarter of 2018 Also be noted after introducing RAMIS system by Inland Revenue Department, VAT is finalized quarterly basis by Inland Revenue Department. Because of that no need to mention carried forward balance of VAT Refund in every VAT return as advised by BDO. However with approval of director board we will make a provision for VAT refund dues if necessary.</p>	<p>Should reconcile this difference and pass relevant accounting entries.</p>								
<table border="1"><thead><tr><th colspan="2">Amount (Rs.) -----</th></tr></thead><tbody><tr><td>Balance as per the Return</td><td>1,628,225</td></tr><tr><td>Balance as per the ledger account</td><td>821,898</td></tr><tr><td>Difference</td><td>806,327</td></tr></tbody></table>	Amount (Rs.) -----		Balance as per the Return	1,628,225	Balance as per the ledger account	821,898	Difference	806,327		
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2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 30.15 million and the corresponding profit in the preceding year amounted to Rs.30.30 million. Therefore, a deterioration amounting to Rs. 0.15 million of the financial result was observed. The reason for the deterioration was increase of expenses during the year.

2.2 Trend Analysis of major Income and Expenditure items

According to the Financial Statements presented major Income and Expenditure items for the year under review as compared with the proceeding three years are given below.

Amount (Rs.000²)

Year	2018	2017	2016	2015
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Revenue	220,530	169,880	74,488	72,978
Other Income	28,980	14,272	23,422	25,556
Cost of sales	128,540	97,600	95,672	71,544
Administrative Expenses	95,244	70,052	66,085	61,224

2.3 Ratio Analysis

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

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

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
Number of air tickets issued in the year 2018 had been decreased by 7.6 per cent, as compared with the preceding year.	Due to severe competition in the industry and the overall decrease in profit margin, the Company makes every effort to maintain the profitability and to meet its annual budgeted targets of all departments.	The Company should take actions to increase its profit margin.
Number of inbound tours had been decreased drastically by 68 per cent in the year under review as compared with the preceding year.		
Number of outbound passengers had been decreased by 18 per cent as compared with the preceding year.		

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
Section 9.2 of the Hand Book on Public Enterprises Guideline for Good Governance issued under Public Enterprises Circular No. PED 12 dated 02 June 2003, the organization chart and the approved cadre should be registered with the Department of Public Enterprises, General Treasury. However, the Company had not complied with the above requirement.	As per the instructions and knowledge gained from the workshop for Chairman and the senior management of subsidiary companies organized by the Department of Public Enterprises and the Department of Management Services; We are in the process of submitting the Organizational structure details and cadre information to be registered with the Department of Public Enterprises.	Organization chart and the approved cadre should be registered with the Department of Public Enterprises, General Treasury immediately.

3.3 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
a The Company does not have a proper credit policy to control the credit period and value given to the customers through handling officers. As a result, the long outstanding debtor balances under individual handling officer's accounts had been increased. Some of them are as follows:	Whenever the management or the respective staff pushes for payments from most of the government institutions to collect the due payment on time, the relevant officers come up with various reasons thus delaying the collection	It is recommending that to implement proper control over credit sales and debts recovering procedures.

Name of the handling officer	Total outstanding as at 31.12.2018 (Rs.)	Outstanding more than 270 days (Rs.)
Kasun	3,518,020	1,681,791
Romesh	6,531,429	2,782,792
Muthumali	660,700	294,500

process. Reasons such as,

- Delays when getting relevant approvals.
- Funds have not been transferred to the Ministry Account from the treasury
- Funds are available but the travel budget has been exceeded.
- Air tickets issued and finalized prior to obtaining relevant approvals
- Once invoice is forwarded for payment long delays are taken to settle the payment or sometimes refrain from settlement.
- Due to the lack of knowledge in airline ticketing procedures, some government officers are refrained from settling due invoices.

b Company does not have an insurance policy to cover the Company's fixed assets from unexpected negative events. In the event of fire, theft or loss of such assets the Company would be liable for the replacement cost of the assets destroyed and it may cause to the going concern.

Will implement insurance coverage for fixed assets from year 2019.

To obtain insurance policies to cover the fixed assets of the Company and they should be reviewed and adjusted ,if necessary, on a periodic basis.

4. Accountability and Good Governance

4.1 Corporate Plan and Action Plan

Audit Issue

Section 5.1.1 of the Public Enterprises Circular No. PED 12 of 02 June 2003, a Corporate Plan should be a rolling plan for a period not less than three years to be prepared to ensure the effective operation of the Company. However, as per our review, a Corporate Plan for the year had not been prepared by the Company.

Management Comment

We have taken action to prepare 03 separate documents as Corporate Plan, Action Plan and Budget for the next financial year.

However, as a practice we are preparing our Business Plan for a period of 03 years which contains our corporate information, the proposed budget for the next three years and the actions that are need to accomplish objectives with the

Recommendation

Should prepare Corporate Plan and Action Plan for the Company in accordance with PED 12.

Section 5.1.2 of the Hand Book on Public Enterprises Guideline for Good Governance issued under Public Enterprises Circular No. PED 12 dated 02 June 2003, an Action Plan should be clearly identifying the responsibilities of managers with goal and targets to be achieved during the plan period. However, An Action Plan for the year under review had not been prepared by the Company. Hence, Business Plan had been prepared for the year 2018 instead of an Action Plan.

some of the information as per the Public Enterprises Guidelines for Good Governance circular under Corporate Plan and Action Plan separately. Such as,

- The Vision, Mission Statement and Objectives
- The Organization Structure
- Strength and weaknesses in the organization and the external threats and opportunities (SWOT)
- A review of the preceding three years' operating results
- Strategic Plan for the period under review.

are also available in our Business Plan.

With regard to the Action Plan, in the travel trade we are unable to give the time in horizon we take to complete above tasks due to the volatile nature and dependence on other influencing factors. As a part of the management team they are also responsible in achieving the overall budgeted targets and also contribute towards the development and progress of the Company.

4.2 Audit & Management Committee

Audit Issue

As per section 7.4.1 of the Public Enterprises Circular No. PED 12 dated 02 June 2003, it is required to conduct Audit and Management Committee meetings on regular basis at least one in three months. However, the Company had not been conducted audit and management committee meetings during the year under review.

Management Comment

As a small Company consisting 53 Staff members in total with the 06 members of the management team, all the matters and correspondence related to above are handled by the Chairman and the board of Directors together with the senior management team of the Company. All audit reports, its corresponding queries together with the management comments are always presented to the Chairman and the Board of Directors at a board meeting and is discussed at length and minuted by the board secretary accordingly.

Recommendation

Audit committee should meet on a regular basis at least once in three months with the Chief Internal Auditor as convener .