

**1.1 Opinion**

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The audit of the financial statements of the Peoples Travels Private Limited (“Company”) for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 and the statement of comprehensive income, statement of changes in equity, 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 of the company give a true and fair view of the financial position of the Company as at 31 March 2020, 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**

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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**

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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 intend 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 Audit Scope

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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 scepticism 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 also 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 Receivables

----- <b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
I. Out of total staff debtors amounting to Rs.1,997,371, 51 percent or Rs.1,026,933 were remained outstanding for more than three months,	We will take necessary steps to clear the pending staff debtors before the end of 31st March 2021.	Need to strengthen the follow up procedures to minimize provisioning requirements.
II. Debtors amounting to Rs. 22,260,066 or 74 percent from total debtors represent the receivable from Government Organizations. Even though the company has 15 days period of credit policy, Rs. 27,231,671 had been outstanding for more than 01 month and the company unable to collect the outstanding balance within the relevant credit period.	We are accompanying continuous negotiations with relevant authorities in government organizations to collect outstanding amounts.	Need to strengthen the follow up procedures to minimize provisioning requirements.

## 1.6 Cash Management

----- <b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
Company maintains considerable amount of cash in hand without any insurance cover.	Noted, we will consider taking necessary actions with regard to the potential risks of maintaining an excess amount of cash in hand by going for an Insurance coverage or to minimize cash in hand as pointed out in your report.	Company need to have an insurance cover or to minimize daily cash in hand.

## 1.7 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
The company had considered mark-up on air tickets relating to out bound tours as VAT exempt supply for the period from 01 April 2019 to 31 March 2020. However, Company was not provided required liability amounted to Rs. 112,594 on current year mark-up on air tickets from out bound tours.	Noted and will take this into consideration and will be strictly adhered.	Company need to continuously comply with the requirement of Inland Revenue Act.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.7,261,060 and the corresponding profit in the preceding year amounted to Rs. 8,632,324. Therefore, a deterioration amounting to Rs. 15,893,384 of the financial result was observed. The reasons for the deterioration are decreasing revenue by Rs.137,500, 814 or 53 percent mainly due to foreign travel & trade restrictions with Covid-19 pandemic.

### 2.2 Trend Analysis of major Income and Expenditure items

Description	2020	2019	Variance amount (Increase/Decrease)	Variance	Reason for the variance
			Rs.	%	
<b>INCOME</b>					
Income from Dambadiva/India Tours	17,959,184	70,199,532	(52,240,348)	-74%	
Income from other leisure Tours	83,197,910	153,400,558	(70,202,648)	-46%	
Net income commission on Air Ticketing	15,760,739	30,457,876	(14,697,137)	-48%	Revenue decreased and expenses decreased due to Covid-19 pandemic foreign travel & Trade restrictions
Net commission On Visa	732,259	1,457,670	(725,411)	-50%	
<b>EXPENSES</b>					
cost of sales Dambadiva/india Tours	14,539,780	60,082,518	(45,542,738)	-76%	
cost of sales leisure Tours	73,974,295	140,915,280	(66,940,985)	-48%	

Distribution Expenses	8,499,774	6,407,541	2,092,233	33%
Administrative Expenses	36,508,503	40,159,932	(3,651,429)	-9%
Finance cost	1,767,244	593,883	1,173,361	198%

## 2.3 Ratio Analysis

<b>Key Ratios</b>	<b>2020</b>	<b>2019</b>
GP Margin	26.29%	20.74%
Operating Profit Margin	-6.15%	4.88%
NP Margin	-6.05%	3.35%
Return on Equity	-8.40%	9.15%
Return on Assets	-6.42%	5.80%
Current Ratio	3.61	1.93
Debt ratio	0.19	0.25
Debt to equity ratio	0.31	0.51

## 3. Operational Review

### 3.1 Uneconomical Transactions

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p><b><u>Revenue</u></b></p> <p><b><u>Zero Commission Charge on Air Tickets Issuance</u></b></p> <p>Company has issued 634 invoices (without tour related air ticket purchases) which the total sales value amounted to Rs. 104,327,734 during the period under review for air tickets purchases without any assigned commission.</p>	<p>Noted, Company has issued above invoices for air ticket purchases at cost in order to retain existing government customers. In practice we have to take such strategic decision and issue tickets even at net cost to face the competition with other travel agents specially private sector agents. However, company has somehow mitigated these losses by charging considerable mark-up from hotel reservations from above customers.</p>	<p>Need to apply same policy for invoicing to mitigate losses.</p>
<p><b><u>Zero Commission Charge on Hotel Arrangements</u></b></p> <p>Company has issued 7 invoices which the sales value amounted to Rs.426,600 during the year under review relating to the hotel arrangements for the customers at a zero percent commission.</p>	<p>Noted, Company has issued above invoices relating to the hotel arrangements at a slight mark-up in order to retain existing customers. In practice we have to take such strategic decision and issue invoices even at net cost to face the competition in the travel industry. However, company has somehow mitigated these losses by charging</p>	<p>Need to apply same policy for invoicing to mitigate losses.</p>

considerable mark-up from air ticket issuance from above customers.

**Zero Commission Charge on Insurance Arrangements**

Company has issued 12 invoices which the sales value amounted to Rs. 108,196 during the year under review relating to the insurance arrangements for the customers at a zero percent commission.

Noted. We have sold mentioned travel insurance as a value-added service sold at the actual cost of it and no service charges are added.

Need to apply same policy for invoicing to mitigate losses.

**Zero Commission Charge on VISA Arrangement to Parent Entity**

Company has issued 2 invoices which the sales value amounted to Rs. 182,500 during the year under review relating to arrangement of visa for people's bank (Parent entity) at a zero percent commission.

Noted. We have sold mentioned VISA arrangements as a value-added service sold at the actual cost of it and no service charges are added.

Need to apply same policy for invoicing.

**Zero Commission Charge on Air Tickets Issuance to Related Entity**

Company has issued 5 invoices which the sales value amounted to Rs. 3,357,723 during the year under review relating purchase of air tickets for People's Leasing & Finance PLC (related entity) at a zero percent commission.

Noted, and that mentioned air ticket transactions have been issued for a special tour arrangement for a particular group. Company has issued above invoices relating to the air ticket purchases at a zero mark-up. In practice we have to take such strategic decision and issue invoices even at net cost to face the competition. However, company has somehow mitigated these losses by charging considerable mark-up on hotel reservation for these groups.

Need to apply same policy for invoicing.