

## **BOC Travels (Private) Limited and its subsidiaries - 2021**

### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the BOC Travels (Private) Limited (the “Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 2021 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 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

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 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 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Internal Control over the preparation of financial statements**

<b>Audit Issues</b>	<b>Management Comment</b>	<b>Recommendation</b>
(i) The company has classified short term deposits maturing within 3 months as cash & cash equivalents. It was observed that this balance includes fixed deposits amounting to Rs.25,096,781 which were pledged as securities with International Air Transport Association (IATA) and for bank loans.	Already rectified in audited financial statements in 2021 and reclassified cash & cash equivalents and other investment in financial statement 2021 under Note Number 27 (comparative information) for year 2020.	It's recommended to ensure the correct classification of balances in the financial statements.
(ii) It was observed that there is no proper control over deciding of profit margin for ticketing and tour income since it is decided by the officer who handles the business with customers.	Due to the highly competitive nature of ticketing business, it is almost impossible to set a fixed pricing policy. If such policy almost all transactions will be required to go through an approval mechanism will hinder the operation and may cause delays. Hence management will hold periodical reviews on the overall profitability and make recommendations on what improvements could be made to increase profitability. The approval by an authorized officer from the management on finalized price scheduled for tours can be looked at prior to advertising same.	It is recommended to have a policy to set the profit margin and if there is any departure from the policy recommended to obtain the approval from an authorized person.

## 1.5 Account Receivable and Payable

### 1.6.1 Receivables

#### Audit Issue

- (i) The company does not have a proper credit policy in order to control the credit period of customers. As per existing credit policy of the company, government customers, corporate customers and individual customers are allowed maximum credit periods of 60 days, 30 days and 15 days respectively and the maximum credit extension is given for 10 days only. The total outstanding debtor balance as at 31 December 2021 is Rs.94,852,123. The age analysis of the total outstanding debtor balance is given in the following table.

Customer Category	Total Outstanding as at 31 December 2021 (Rs.)			Outstanding as a % to the Total Outstanding
	181-360 Days	More than 360 days	Total	
Government	21,415,559	37,056,516	58,472,075	61.65
Corporate - Others	6,400,140	7,050,542	13,450,682	14.18
Individuals	2,796,199	20,133,167	22,929,366	24.17
<b>Total</b>	<b>,611,890</b>	<b>4,240,225</b>	<b>94,852,123</b>	<b>100</b>

- Out of total outstanding debtor balance of Rs.94,852,123, Rs.64,240,225 or 67.73 per cent is outstanding more than 360 days period of time and Rs.30,611,890 or 32.27 Per cent is outstanding between 180 to 360 days period of time which may adversely affect to the working capital requirements of the company.
- Out of total outstanding of Rs.94,852,123, Rs.58,472,075 or 61.65 per cent is the debtor balance receivable from government institutions. Out of total receivable balance from government institutions, Rs.37,056,516 or 63.37 per cent is outstanding more than 360 days period of time.
- It was further observed that total debtor balance as at 31 December 2021 is outstanding more than 180 days.
- As per the discussion had with the company, it was revealed that the company is not ready for taking strict actions to collect even longer outstanding of the customers due to fear of losing customers.

#### Management Comment

Credit limits assigned to corporates to be monitored and an approval process to be established to follow when exceeding limits due to any special case. The process to be documented in the next revision of the operations manual.

With the new back-office system, the monitoring process is more stream lined due to ease of access to information.

With the removal of the Finance ministry circular all government ministries are able to procure from the private sector and the private sector is heavily geared to incentivize the travel coordinators, hence we are using the minimum possible pressure in recoveries from the government sector considering the continuity of business.

With the private sector also, the heavy competition restricts us in using excessive force, however once the debt collection procedure devised will be strictly implemented on long outstanding debtors.

#### Recommendation

It is recommended to have a better credit policy and make arrangements to collect the long outstanding debtor balances and perform an impairment review for long outstanding customer balances and take necessary actions. As well it is recommended to implement new strategies to retain the existing customers and attract new customers and maintain competitiveness in the industry rather avoiding from collecting due amounts from the customers.

- (ii) As per the credit policy of the company, the credit limits to the customers need to be based on their previous performance. However, the company does not conduct any credit evaluation process and analysis of customer's payment behavior before serving continuously. It was further observed that there are no customer track records in the company data base.
- All new credit customers are allocated a credit limit at the time of initiation and then will be reviewed later based on the volume of business given. In most cases the clients initial allocation of credit is maintained throughout. The customer track record we have is the data on the revenue generated which is accessible through the Backoffice system.
- It's recommended to follow up the directions given in credit policy of the company when deciding credit limits to the customers and to maintain customer payment track records in the company data base.

## 1.7 Financial Review

### 2.1 Financial Result

The operating result of the year amounted to a loss of Rs.39.7million and the corresponding loss in the preceding year amounted to Rs.57.6 million. Therefore, a decrease of loss by Rs.17.9 million was observed during the year under review. The decrease of cost of sales by 85.98 percent with the reduction of number of tours to Dambadiwa due to COVID pandemic situation prevailed in world during that period and decrease of distribution expenses by 67.46 percent due to reduction in bad debt provision were the main reasons for the decrease of loss during the year under review.

### 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."000")	Variance %	Reason for the Variance
Cost of Sale	(30,226)	(85.98)	The variance is mainly due to the reduction of Dam tours & outbound Tours / Hotel sales during the year under review. During the year 2020, the Dam Tour cost of sales was Rs.23.5mn and it was zero during the year 2021. Cost of Sales of outbound/ hotel was also reduced due to COVID 19 pandemic prevailed in world during that time period.
Distribution Expenses	(16,111)	(67.46)	This was due to the decrease of bad debt provision from Rs.22.2 million to 5.6 million during the year under review.

### 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 and the preceding 04 years period are given below.

Ratio	Year				
	2021	2020	2019	2018	2017
<b>Liquidity Ratios (No of Times)</b>					
Current Ratio	2.5	4.5	3.5	4.0	4.4
Net Current Assets to Total Assets	0.54	0.61	0.6	0.67	0.73
<b>Activity Ratios</b>					
Debtor's Turnover Ratio	7	4	13	14	16
Debtor's Turnover Period (Days)	52	84	28	27	23
<b>Profitability Ratio</b>					
Net Profit Ratio	(5.96)	(18.8)	1.57	1.77	2
<b>Performance Ratios</b>					
Return Of Equity	(24.9)	(31.13)	11.48	12.17	13.4
Return on Total Assets	(13.68)	(19.99)	7.37	8.92	10

Following observations are made in this regard.

- The liquidity position of the company has slowly come down when it compares with 2017 to 2021.
- Debtors' Turnover ratio and Debtor's Turnover Period have improved during the year under review when compare with the preceding year. However, these two ratios are still unfavorable when compare with the last three years period of 2017 to 2019.
- The Return on Equity (ROE) and Return on Asset (ROA) ratios shows negative figures during the year under review and the preceding year. This shows that, the company was unable to deliver any value to its shareholders and also was unable to utilize it assets efficiently and effectively within these two years period.