

BOC Travels (Private) Limited - 2022

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 2022 comprising the statement of financial position as at 31 December 2022 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 practise.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, 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 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 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 Audit Observations on the preparation of Financial Statements

1.5.1 Inappropriate valuation or Estimation

Audit Issue	Management Comment	Recommendation
<p>The Company has fully depreciated property, plant and equipment (PPE), which are still in use amounting to Rs.32,187,826 as at 31 December 2022. It represents 72.96 per cent of total Property Plant and Equipment of the Company (PPE). However, retrospective adjustments had not been made in the financial statements by reassessing the useful life of these assets.</p>	<p>Out of total depreciated assets 75.45 % (Rs. 24,287,000/-) reflecting fully depreciated motor vehicle. Before COVID 19 company policy was after useful life all motor vehicles are sold and repurchased since maintenance costs are high. But because of the current economy situation of the country there is no possibility to sell and repurchase. We are awaiting to get smooth the country economy to do the needful.</p>	<p>It is recommended to assess the value of these assets using the current market value or reassess the useful life of these assets.</p>

1.6 Account Receivable and Payable

1.6.1 Receivable

Audit Issue

- (i) As per the company's credit policy, the government departments, corporate customers and individual customers are permitted a maximum credit period of 60 days, 30 days and 15 days respectively and the maximum credit extension is given only for 10 days. When analysing the outstanding debtor balance from each customer category, it was observed that some balances are exceeded the allowed credit period of the Company. Therefore, it was observed that the Company was unable to recover the outstanding debtor balances within the stipulated credit period. The age analysis of the total outstanding debtor balance is given in the following table.

Customer Category	Total Outstanding as at 31 December 2022 (Rs. 000')				Outstanding as a % of the total outstanding
	0-180 days	181-360 days	More than 360 days	Total	
Government	55,501.6	136.9	11,476.1	67,114.6	49
Corporate others	32,907.3	302.3	6,442.6	39,652.2	29
Individuals	16,321.7	1,569.7	13,119.0	31,010.4	22
Total	104,730.6	2,008.9	31,037.7	137,777.2	100

Management Comment

The company takes all possible measures to recover the Debtors within the credit period offered. But in most cases when follow-ups are done with Government Institutions and Corporate Institutions they give reasons to further delay the payments. Travel and Tourism unfortunately is a credit-driven market un due to pressure on the Government Institutions or Corporate Institutions, they have the option to proceed and deal with different Travel and Tourism companies. The staff is always advised to abide by the Credit policy in place in the company for the small flow of funds into the company to ensure settlement in a timely manner to our suppliers.

Recommendation

It is recommended to take every effort to recover the receivable balances within the credit period as per the company's credit policy. As well it is recommended to introduce new strategies to recover the long outstanding balances without affecting to the company's working capital.

- (ii) Out of the total outstanding debtor balance of Rs.137,777,247, Rs.104,730,618 or 76 per cent is outstanding up to 180 days period of time and Rs. 31,037,691 or 23 per cent is outstanding for more than 360 days which may adversely affect to the working capital requirement of the company.

- (iii) Out of the total outstanding balance of Rs.137,777,247, Rs.67,114,596 or 49 per cent is the receivable from government institutions. Although the company has allowed 60 days credit period to government institutions, Rs 11,613,008 or 17.3 per cent from total receivables as at 31 December 2022 is outstanding for more than 181 days.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
(i) Following long outstanding payable balances were observed as at 31 December 2022 and satisfactory actions have not been taken by the Company to clear the long outstanding balances.		It is recommended to take necessary steps to clear long outstanding balances.

Description	Amount (Rs.)
Unidentified Credit by Bank	2,636,395
Unused Air Ticket Refund	35,700
Refundable Deposit from Staff	25,000
ADM Suspense	818,673
Total	3,515,768

Unidentified credit by Bank

After COVID 19 most of passenger are using direct funds transferred to company Bank account. Until passenger or sales staff confirm the relevant transaction with payment proof cashier is advised to not to settle any transactions. There is a time gap until passenger confirm. Even they were advised, sometimes due to practical issues cannot be controlled. After 5 years with Board approval balance will transferred to company income account.

Unused Air Ticket refund

This amount we received by airline ref as refunds and up to now no request From either Passenger or staff. After 5 years balance will be Transferred to Income with Board approval.

Refundable Deposit from Staff

Rs. 25,000/-is paid by company cashier as a refundable deposit. (Security purpose) Once she retires from the company which will be paid to her.

ADM Suspense

Sometimes air lines do not charge as per the fare rule. Because of that they charge lesser amount for the relevant air tickets. In such an incident company keeps the difference for a certain period if they again charge to pay back. Most probably within

one year we have not received any ADM, these amount will be transferred to purchase of AT account with GM/CEO's approval.

- (ii) The Trade Payable balance of the Company as at 31 December 2022 was Rs.51,376,877 which includes long outstanding payables ranging from 0 days up to more than 360 days. Satisfactory actions have not been taken by the Company to clear the long outstanding balances. Age analysis of Trade Payable balance of the Company is given below.
- Up to now we haven't been requested to pay some trade payable balances even we asked from them to send us invoices to pay. In such an incident as a practice company keep these payable balances for 5 years and after certain verification with Board approval which will be transferred to income.
- It is recommended to clear the long outstanding balances.

Number of Days	Amount (Rs.)
0-90	50,024,617
91-180	712,727
181-270	86,634
271-360	19,989
> 360	532,910
Total	51,376,877

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 48.6 million and the corresponding loss in the preceding year amounted to Rs. 39.7 million. Therefore an improvement amounting to Rs.88.3 million of the financial result was observed. The reasons for the improvement are the increase of revenue by 242.58 per cent due to increase of general ticketing, outbound tours and hotel accommodation and Dambadiwa tours, the increase of other income by 262.26 per cent and the decrease of distribution expenses by 74.06 per cent.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance Amount Increase/ Decrease (Rs. 000³)	Variance (%)	Reason for the Variance
Revenue	97,386	242.58	The variance is mainly due to the increase in ticketing income, outbound tours and outbound hotel accommodation during the year under review. As well the Dambadiwa tour income had increased which was Zero during the year 2021.

Other Income	13,158	262.26	This was mainly due to increase in visa services and the increase in miscellaneous income.
Net Finance Income	10,480	308.32	High interest income received on bank deposits.
Impairment provision reversal of trade receivables	12,951	100.0	Money received from debtors on which a provision has already been made.

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				
	2022	2021	2020	2019	2018
Liquidity Ratios					
Current Ratio	3.0	2.5	4.5	3.5	4.0
Net Current Assets to Total Assets	0.62	0.54	0.61	0.6	0.67
Activity Ratios					
Debtor's Turnover Ratios	19	7	4	13	14
Debtor's Turnover Period (Days)	19	52	84	28	27
Profitability Ratios					
Net profit Ratio (%)	1.85	(5.96)	(18.8)	1.57	1.77
Performance Ratios					
Return on Equity (ROE) (%)	25.53	(24.90)	(31.13)	11.48	12.17
Return on Total Assets (ROA) (%)	15.18	(13.68)	(19.99)	7.37	8.92

- (i) The liquidity ratios have slightly increase when compared with the previous year.
- (ii) Debtors' Turnover ratio and Debtors' Turnover period have improved during the year under review when compare with the preceding years.
- (ii) The Return on Equity (ROE) and Return on Assets (ROA) ratios shows more positive figures than the last preceding four years as the tourism industry is improving gradually after the economic crisis and the pandemic situation in the country was over.

3. Operational Review
3.1 Procurement Management

Audit Issue	Management Comment	Recommendation
(i) As per Section 4.2 of the Procurement Guide lines – 2006, an entity should prepare a procurement plan for the procurement activities envisaged at least for a period of three years which ensure the timely completion of procurement and obtaining the best market value for the procuring items. However, such a plan had not been prepared by the Company for the year 2022.	The company procurement requirements are very minimum given the size of the entity. The company has no large-scale yearly procurement items. At the beginning of each year quotations with prices are called for items such as stationery, toners, and cartridges and depending on the price and quality of the product of supplier is selected. The procurement process for items as required 03 quotations are called and submitted to the procurement committee for approval. Which is minuted by the Secretary or available staff entrusted to minute the procurement meeting. The procurement process for the company also has been forwarded to the Board and approval obtained.	It is recommended to prepare a procurement plan as per the Procurement Guidelines to perform the procurement process effectively.
(ii) As per Section 2.11.3 of the Procurement Guidelines – 2006, the proceedings of the meetings of the Procurement Committee should be recorded in the specified format and authenticated by the members present. However, Procurement Committee Meeting Minutes of the Company had not been prepared in a proper way by referring to the given instructions.	Not commented	It is recommended to prepare the procurement committee meeting minutes in a proper way.

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
(i) The Company does not have an approved Scheme of Recruitment (SOR), an approved pay structure and allowances which is necessary for the smooth functioning of human resource operations.	Travel and Tourism companies do not maintain a fixed quota of staff for specific departments of designations. Most Travel and Tourism companies recruit staff based on the business volume received by that company. Even staff resignation in most cases are not immediately filled by Travel companies if business in hand is manageable by the existing staff. Travel	It is recommended to prepare a SOR and a pay structure for the Company and adhere with the approved schemes for the smooth running of Company’s human resource operations.

and Tourism companies with business expansion will recruit staff been necessary for such business expansion. Being Travel and Tourism industry the company has no fixed quota for each specific designation.

The company has a recruiting process in its Corporate plan which is annually presented to the Board and approved a copy of the process is attached for your easy reference. (Attachment I, page no 23. All staff salaries and paid allowances are annually revised based on approval/recommendation to meet in the industry standards which is presented to the board annually at the beginning of each year for approval. A salary structural guideline scheme for staff salary is also presented to the board when a revision in the structural guideline scheme is required. (Attachment II)