

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 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 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 2023, 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 Account Receivable and Payable

1.5.1 Receivables

| Audit Issue | Management Comment | Recommendation | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--------------------|--|--------------------|-----------|-------|---|------------|---|--------------------|------------|----------|---------|---------|----------|----|-----------|----------|---------|----------|-----------|----|-------|-----------|---------|----------|-----------|-----|---|--|
| <p>(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.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2" style="text-align: left;">Customer Category</th> <th colspan="3" style="text-align: center;">Total Outstanding as at 31 December 2023 (Rs. 000')</th> <th rowspan="2" style="text-align: center;">Total</th> <th rowspan="2" style="text-align: center;">Outstanding as a % of the total outstanding</th> </tr> <tr> <th style="text-align: center;">0-180 days</th> <th style="text-align: center;">181-360 days</th> <th style="text-align: center;">More than 360 days</th> </tr> </thead> <tbody> <tr> <td>Government</td> <td style="text-align: right;">52,217.1</td> <td style="text-align: right;">1,250.4</td> <td style="text-align: right;">8,034.3</td> <td style="text-align: right;">61,501.8</td> <td style="text-align: center;">38</td> </tr> <tr> <td>Corporate</td> <td style="text-align: right;">73,706.1</td> <td style="text-align: right;">7,197.9</td> <td style="text-align: right;">19,192.4</td> <td style="text-align: right;">100,096.4</td> <td style="text-align: center;">62</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">125,923.2</td> <td style="text-align: right;">8,448.3</td> <td style="text-align: right;">27,226.7</td> <td style="text-align: right;">161,598.2</td> <td style="text-align: center;">100</td> </tr> </tbody> </table> | Customer Category | Total Outstanding as at 31 December 2023 (Rs. 000') | | | Total | Outstanding as a % of the total outstanding | 0-180 days | 181-360 days | More than 360 days | Government | 52,217.1 | 1,250.4 | 8,034.3 | 61,501.8 | 38 | Corporate | 73,706.1 | 7,197.9 | 19,192.4 | 100,096.4 | 62 | Total | 125,923.2 | 8,448.3 | 27,226.7 | 161,598.2 | 100 | <p>Travel and Tourism unfortunately is a credit-driven market. Exerting un due pressure on the Government Institutions or Corporate Institutions to abide by the Company's Credit Policy may risk in the client moving away from us as 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 smooth flow of funds into the company to ensure settlement in a timely manner to our suppliers. To this effect the Accountant periodically has a debtors meeting individually with all staff to discuss the recovery of long outstanding. In most cases, with Government Institutions and Private/Corporate companies, there is a limited possibility of zero recoverable at a time as it is always a trading pattern that payments are made and fresh tickets are issued.</p> | <p>It is recommended to take every possible effort to recover the receivable balances within the credit period as per the Company's credit policy. Further it is recommended to use new strategies to recover the long outstanding balances without affecting to the working capital of the company.</p> |
| Customer Category | | Total Outstanding as at 31 December 2023 (Rs. 000') | | | | | Total | Outstanding as a % of the total outstanding | | | | | | | | | | | | | | | | | | | | | |
| | 0-180 days | 181-360 days | More than 360 days | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Government | 52,217.1 | 1,250.4 | 8,034.3 | 61,501.8 | 38 | | | | | | | | | | | | | | | | | | | | | | | | |
| Corporate | 73,706.1 | 7,197.9 | 19,192.4 | 100,096.4 | 62 | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 125,923.2 | 8,448.3 | 27,226.7 | 161,598.2 | 100 | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>(ii) Out of the total outstanding debtor balance of Rs.161,598,215, Rs.125,923,253 or 78 per cent represents outstanding up to 180 days period of time and Rs. 27,226,719 or 17 per cent represents outstanding for more than 360 days which may adversely affect to the working capital condition of the company.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>(iii) Out of the total outstanding balance of Rs.161,598,215, Rs.100,096,424 or 62 per cent represents the receivable from corporate customers. Although the company has allowed 30 days credit period to corporate customers, Rs 26,390,319 or 16.3 per cent from the total receivables as at 31 December 2023 was outstanding for more than 181 days.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

1.5.2 Payables

| Audit Issue | Management Comment | Recommendation | | | | | | | | | | |
|--|---|---|-----------------------------|-----------|--------------------------|--------|--------------|---------|--------------|------------------|---|--|
| (i) The total long outstanding payable balance as at 31 December 2023 was Rs.3,536,221 and out of the total, Rs. 2,425,748 was outstanding for more than 01 year period. Details are given below. | <p>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.</p> | It is recommended to take necessary steps to clear long outstanding balances. | | | | | | | | | | |
| <table border="1"> <thead> <tr> <th data-bbox="225 533 384 560">Description</th> <th data-bbox="603 533 703 600">Amount (Rs.)</th> </tr> </thead> <tbody> <tr> <td data-bbox="225 622 536 689">Unidentified Credit by Bank</td> <td data-bbox="624 622 746 649">2,872,468</td> </tr> <tr> <td data-bbox="225 701 536 768">Unused Air Ticket Refund</td> <td data-bbox="660 701 746 728">35,700</td> </tr> <tr> <td data-bbox="225 790 427 817">ADM Suspense</td> <td data-bbox="644 790 746 817">628,053</td> </tr> <tr> <td data-bbox="225 840 309 866">Total</td> <td data-bbox="624 840 746 866">3,536,221</td> </tr> </tbody> </table> | Description | Amount (Rs.) | Unidentified Credit by Bank | 2,872,468 | Unused Air Ticket Refund | 35,700 | ADM Suspense | 628,053 | Total | 3,536,221 | <p>Unused Air Ticket refund This amount we received by airline 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.</p> | |
| Description | Amount (Rs.) | | | | | | | | | | | |
| Unidentified Credit by Bank | 2,872,468 | | | | | | | | | | | |
| Unused Air Ticket Refund | 35,700 | | | | | | | | | | | |
| ADM Suspense | 628,053 | | | | | | | | | | | |
| Total | 3,536,221 | | | | | | | | | | | |
| | <p>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.</p> | | | | | | | | | | | |

- (ii) The Trade Payable balance of the Company as at 31 December 2023 was Rs.47,331,358 which includes long outstanding payable balance of Rs. 964,702 which was outstanding for more than 06 months period. Age analysis of total trade payable balance of the Company is given below.

| Number of Days | Amount (Rs.) |
|-----------------------|-------------------------|
| 0-90 | 46,207,035 |
| 91-180 | 159,621 |
| 181-270 | 54,416 |
| 271-360 | 118,623 |
| > 360 | 791,663 |
| Total | 47,331,358 |

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 long outstanding balances without delay.

1.5.3 Going Concern of the Organization

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| (i) The Central Bank of Sri Lanka has instructed to the Bank of Ceylon through their letter dated 20 November 2017 to dispose the BOC Group's holding in BOC Travels (Pvt) Ltd within the next 3 years, since the key business activities of the subsidiary do not fall within the purview of Section 17 (1) (a) – (g) of the Banking Act No. 30 of 1988. The decision to dispose the subsidiary was approved by the Board of Directors of Bank of Ceylon on 28 December 2017. A resolution has passed by the Company on 24 July 2023 towards the divestment. An advertisement was published on 19 and 20 May 2024 in 5 newspapers by requesting Expressions of Interest from prospective investors. At the closure of Request of Proposal (RFP) only one prospective investor has submitted a bid. However, the transaction advisor has recommended to reject the said RFP due to lack of information and not fulfilling the requirements as set out in the RFP. | Divestment of BOC Travels (Pvt) Ltd is handled by Bank of Ceylon. | It is recommended to speed up the divestment process. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 91.8 million and the corresponding profit in the preceding year amounted to Rs. 48.6 million. Therefore an improvement amounting to Rs.43.2 million of the financial result was observed. The reasons for the improvement are the increase of revenue by 84.18 per cent, other income by 145.63 per cent and the net finance income by 161.34 per cent during the year under review. Even though the distribution expenses and administrative expenses had increased by 341.24 per cent and 47.46 per cent respectively, the increase of income was greater than the increase of expense which impacted on improvement of financial result during the year under review when compare with the preceding year.

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.000') | Variance (%) | Reason for the Variance |
|----------------------------|--|-----------------|--|
| Revenue | 115,778 | 84.18 | General Ticketing income and Dambadiwa tour income had increased by Rs. 70.4 million and Rs. 44.9 million respectively during the year under review. |
| Other Income | 26,470 | 145.63 | The variance is mainly due to the increase in visa services, travel insurance sales and airline incentive. |
| Net Finance Income | 22,393 | 161.34 | This was mainly due to increase in interest on bank deposits, exchange gain and decrease in overdraft interest. |
| Distribution Expenses | 6,876 | 341.24 | The sales promotion expenditure had increased by Rs. 2.7 million. As well the sales commission had increased by Rs. 5.5 million which was Zero during the preceding year. |
| Administrative Expenses | 39,618 | 47.46 | The expenditure for credit card commissions, motor vehicle up keep, staff welfare, travelling, allowances, bonus and Christmas gifts had hugely increased during the year under review. (The expenditures bonus, allowances and Christmas gifts were Zero during the preceding year) |

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 | | | | |
|------------------------------------|-------|-------|---------|---------|-------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Liquidity Ratios | | | | | |
| Current Ratio | 3.0 | 3.0 | 2.5 | 4.5 | 3.5 |
| Net Current Assets to Total Assets | 0.66 | 0.62 | 0.54 | 0.61 | 0.6 |
| Activity Ratios | | | | | |
| Debtor's Turnover Ratios | 22 | 19 | 7 | 4 | 13 |
| Debtor's Turnover Period (Days) | 16 | 19 | 52 | 84 | 28 |
| Profitability Ratios | | | | | |
| Net profit Ratio (%) | 2.56 | 1.85 | (5.96) | (18.8) | 1.57 |
| Performance Ratios | | | | | |
| Return on Equity (ROE) (%) | 42.89 | 25.53 | (24.90) | (31.13) | 11.48 |
| Return on Total Assets (ROA) (%) | 27.94 | 15.18 | (13.68) | (19.99) | 7.37 |

- (i) No significant increase was observed in liquidity ratios during the year under review.
- (ii) Debtors' turnover ratio and debtors' turnover period have improved during the year under review when compared with the preceding years.
- (iii) Profitability ratio has slightly improved when compare with the preceding year.
- (iv) The Return on Equity (ROE) and Return on Assets (ROA) ratios shows more positive figures than the last preceding four years period 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 |
|--|---|--|
| For an effective functioning of procurement activities, the 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 2023. | We normally purchase stationery items and sales promotional items. Being a small entity other than that only few procurements taken place. If any necessity we purchase them as per the company procurement manual. | It is recommended to follow the Procurement Guideline instructions to perform the procurement process effectively. |

3.2 Operational Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| (i) Lease agreements need to be signed prior to commencement of the lease period. However, lease agreements made during the year 2023 relating to Head Office and Wellawatta premises were signed after 06 months lapsed since the commencement of specified lease period. This delay in the finalization of lease agreements may lead to meet difficulties in creating lease schedules align with the agreed terms and resulting in delays in the payment of lease increments. | Generally, steps are taken to remind the Bank of Ceylon Properties and Procurement Department of the laps in Lease Agreements for Office spaces occupied by us. Their Process of getting the valuation done and reverting back to us with offer letters prior to the draft agreement being sent to us takes time. Further when their process is done and the offer letter is sent to us, we table it at the next Board Meeting to be held for approval of the Board of Directors of the company. Both above processes are time-consuming. Especially when it comes to the renewal of the premises occupied by us at the Bank of Ceylon Buildings. Steps will be look at to reduce the delay in finalising the lease agreements. | It is recommended to sign the lease agreements on due time to meet the legal and regulatory requirements. |
| (ii) It was observed that two number of lease agreements were expired and no renewed agreements were available up to the date of audit on 08 July 2024. Details of those expired lease agreements are given below. | With regards to the Jaffna Lease agreement, we have with us email correspondence sent to the Bank Properties and Procurement Department notifying them of the expiring of the lease agreement and the request to proceed with renewal at the same. As mentioned in our prior explanation, the processes of renewal of the Properties and Procurement Department courses such delays. (Reminder emails attached herewith, no 03) | It is recommended to sign a lease agreement/ renewal prior to commencement of lease period. |

| | Buildings relating to the Agreement | Lease Agreement No. | Expired Date of agreement |
|------|-------------------------------------|---------------------|---------------------------|
| (i) | Jaffna | 2388 | 31.12.2023 |
| (ii) | Kandy | - | 30.09.2023 |

Kandy

With regards to the Kandy Lease agreements from September 2023, we have been negotiating with Property Finance and Investments Kandy (Pvt) Ltd on more office space required by us. Property Finance and Investments Kandy has been giving us various

offer letters on the 06th Floor of Kandy City Centre which are not in favour of us due to the brand visibility been negative. As Travel and Tourism Company needs good brand visibility.

These offer letters have been presented to the Board of Directors of the Company as well.

At the last Board Meeting held, the Management was advised to seek an extension on the current office space occupy due to the Divestment Process of the company from Bank of Ceylon. These two have been communicated with the Property Finance and Investments Kandy.

The delay in signing a new agreement of office spaces occupied by us in Kandy is due to the above said reasons.

3.2 Human Resources Management

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| (i) The Company does not have an approved Scheme of Recruitment (SOR), a remuneration policy for the year under review, which is necessary for the smooth functioning of human resource operations. | The company has a recruiting process in its Corporate plan which is annually presented to the Board of Directors and approved. Also at the beginning of each year, a present staff cadre and necessary carder for future business expansion is presented to the Board. 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. | It is recommended to prepare SOR and a pay structure for the Company to adhere with the approved schemes for smooth functioning of human resource operations. |

Travel agencies in the Tourism field do

not maintain a fixed staff quota for specific designations departments. Most often companies recruit staff based on the business volume handled by that company. Even with staff resignations in most cases They are not immediately filled by Travel Companies, if the business in hand is manageable by the existing staff. Travel companies with business expansion in mind will recruit staff necessary for such business expansion. Being Travel and Tourism industry the company has no fixed quota for each specific designation.