

## **BOC Travels (Private) Limited - 2020**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statements of the BOC Travels (Private) Limited (the “Company”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 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 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**

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

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(i) It was observed that there is no proper control over the deciding of profit margin for ticketing and tour income since it is decided by the officer who handles the business with customers.	The profit margin of 2% mentioned in the operational manual is a benchmark set for the operation staff on what minimum profit margin is required to entitle the staff for sales commission. However in this highly competitive industry it is merely impossible to control the profit margins through approval as it could result in losing the customer. However an approval process is in place in cases where sales are made below the cost of sale to protect future sales from the client.	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.

## 1.5.2 Documentary Evidence not made available for Audit

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<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
It was unable to reconcile the debtor balance amounting to Rs.47,920,121 between the debtor's records and the company's system balances due to unavailability of debtor's confirmation as at 31 December 2020.	Recommendation has been noted. In most cases officials at the state institutions do not obliged to our letters sent, despite continuously reminding them to do so. Due to the ongoing pandemic situation some private institutions may have reviewed closed. Once the debtor confirmation letters were sent, staff taken every efforts to remind their customers to actions their earliest.	Recommended to obtain confirmation from trade debtors to reconcile the receivable balances with their records in order to ensure the accuracy of balances appeared in the financial statements.

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Receivables

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<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(i) The Company does not have a proper credit policy in order to control the credit period and value given to the customers by the handling officers. As a result, out of total outstanding debtor balance of Rs.23,923,462 recorded under 20 individual handling officer's accounts, Rs.12,883,471 was outstanding more than 360 days as at 31 December 2020 which may adversely affect to the working capital requirements of the company.	As recommended our debt recovery process and the credit control process is being drafted by the management as at August 2021, which will be finalized and implemented.	It is recommended to implement a recovery plan to recover long outstanding balances from the persons who are handling the sales and implement a proper control over credit sales.
(ii) There is a long outstanding balance of VAT receivable amounting to Rs.2,800,641 which is outstanding since more than one year. Satisfactory actions have not been taken by the company to recover the long outstanding balances or write off if no further recovery is expected.	This amount is VAT refunds. If Inland Revenue Department does not refund, need to provide reasonable amount from income monthly and write off.	It is recommended to take appropriate follow-up actions to recover the long outstanding balances or write off if no further recovery is expected.

## 1.7 IT General Controls

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
No backup details were available as at the date of audit of 2 February 2019 in the Google drive and the company's external PC is also located in the same location.	The recommendation is noted and at the moment backup gets daily (office working days) and uploaded to Google drive. As per the recommendation will store the separate weekly backup in a separate folder in Google drive.	It is recommended to taking weekly backup details and storing in an external place to protect from unexpected events.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.57.5million and the corresponding profit in the preceding year amounted to Rs.16.9 million. Therefore, a decrease amounting to Rs. 74.4 million of the financial result was observed. Decrease of main revenue and other income by 78.8 per cent and 68.7 percent respectively due to COVID pandemic situation prevailed in the world was the main reasons for the decrease of the financial result 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.

<b>Description</b>	<b>Variance Amount Increase/ (Decrease)</b>	<b>Variance %</b>	<b>Reason for the Variance</b>
Revenue	(197,620)	(78.8)	The COVID Pandemic situation prevailed in the country during the year 2020 has highly affected to lower the business volume and the business income of the company due to its nature of business.
Cost of Sales	(114,591)	(76.5)	
Other Income	(21,056)	(68.7)	
Marketing Expenses	16,777	236	Marketing expenses has increased due to increase of bad debt provision by Rs.22 million during the year under review when compare with 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.

<b>Ratio</b> -----	<b>2020</b> -----	<b>2019</b> -----	<b>Year</b> ----- <b>2018</b> -----	<b>2017</b> -----	<b>2016</b> -----
<b>Profitability Ratios</b>					
Net profit ratio	(18.8)	1.57	1.77	2	2.3
Return on Total Assets	(19.99)	7.37	8.92	10	11
Return on Equity	(31.13)	11.48	12.17	13.4	15.7
<b>Activity Ratios</b>					
Debtor Turnover Ratio	4	13	14	16	12
Debtor Turnover Period (Days)	84	28	27	23	29
<b>Liquidity Ratios (No. of Times)</b>					
Current Ratio	4.5	3.5	4	4.44	3.53
Net Current Assets to Total Assets	0.61	0.6	0.67	0.73	0.67

It was observed that all the profitability ratios were gradually decreased during the past 04 years period since 2016 to 2019 and became worst during the year under review due to COVID pandemic prevailed in the world.