

SriLankan Catering Limited – 2019/2020

1.1 Opinion

The audit of the financial statements of the Sri Lankan Catering Limited (“Company”) for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 (financial year) and the statement of comprehensive income, statement of changes in equity and cash flow statement 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 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

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 (Auditor's Responsibilities for the Audit of the Financial Statements)

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 Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

The Company is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.6 Accounts Receivable and Payable

Audit Issue

Management Comment

Recommendation

The trade receivables balance as at the end of the year under review has been understated by Rs. 6,198,338 due to the set off negative balances of the trade debtors.

This has been the practice in the past. However, We will implement the recommendation.

Action should be taken to identify credit balances separately in the financial statements.

1.7 Related Parties and Related Party Transactions not disclosed

Audit Issue

Management Comment

Recommendation

Total trade receivables as at 31 March 2020 was Rs.11,347 million. Out of that a sum of Rs.10,686 million which equivalent to 94 percent was receivable from Sri Lankan Airlines Ltd. Further, out of the above balance

The Management is in the process of recovering those balances from Sri Lankan Airlines Ltd.

Action should be taken to recover the receivable from Sri Lankan Airlines.

a sum of Rs.4,980 million had remained over one year without being settled. The balance receivable from Sri Lankan Airlines Ltd as at 31 March 2020, was represented 67 percent of the total assets of the Company. However, the Company had paid dividends amounting to Rs.1,701 million to the Sri Lankan Airlines Ltd despite of above outstanding balance.

1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
<p>(a) Public Enterprises Circular No.PED/12 dated 02 June 2003 on Public Enterprises Guidelines for Good Governance</p> <p>(i) Paragraph 7.4.5</p>	<p>Annual Board of survey had not been appointed to carry out verification of fixed assets of the Company as at 31 March 2020.</p>	<p>The company has complied with same in the past. However, due to Covid 19 pandemic, certain areas were locked down and curfew had been imposed. Hence, the members of the board of survey and BDO auditors could not be present for the verification. Nevertheless, the company managed to carry out year-end stock count with minimum participation of staff members to ensure its accuracy.</p>	<p>Annual board of survey should be appointed to carry out verification of fixed assets of the Company.</p>

(ii) Paragraph 9.3.1 (i)	The Scheme of Recruitments and Promotions (SOR) of the Company had not been approved by the Ministry concerned and had not obtained the concurrence of the General Treasury.	The company adopts the company HR Manual for the recruitment and promotions and subsequent changes which have been approved by the Board on 16 th August 2016 and 10 th October 2019. In future, HR Manual will be shared with the General Treasury as well.	Action should be taken to obtain the General Treasury concurrence and the approval of Ministry for the SOR of the Company.
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1.9 IT General Controls

Audit Issue -----	Management Comment -----	Recommendation -----
(a) Disaster Recovery (DR) Site has not been implemented by the company. Absence of DR Site increases the risk of a devastating data loss incident or a period of downtime that could cripple the organization.	The risk of not having a DR site for SLC is mitigated to a greater extent through the established Group Data Protection framework certified through ISO 27001 and ISO 20000. System backups and Network redundancies are established for BCM requirements. Hosted system in SLA Data Center is covered through UL BCP and DR options.	Action should be taken to implement a disaster recovery site for the entity in order to ensures the operations can continue regardless of any mishap or disaster
(b) Even though the Microsoft Corporation has discontinued the support of security patches, windows updates and technical support for windows operating system, the Company has been utilizing windows 7 installed PCs. Thereby PC maybe vulnerable to malware and cyber threats.	Out of all PCs of the company, only 64 PCs are not compatible with Windows 10. A solution will be provided to rectify the security vulnerabilities once the company's operations become normal with Covid-19.	The company should update the technology for the safety of its information.

2. Financial Review

2.1 Financial Result

The following observations are made.

- (a) The Company had resulted in a net profit of Rs. 4,759 million as compared with the corresponding profit of Rs.5,602 million in the preceding year. Thus indicating a deterioration of Rs.843 million in the financial result of year under review. Decreasing the flight kitchen income amounting to Rs.616 million for the year under review as compared with the preceding year was the main reason for that deterioration.
- (b) The value addition from the Company from the year 2015/16 to 2018/19 are given below.

Description	2019/20	2018/19	2017/18	2016/17	2015/16
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	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Profit after Tax (before payment of dividends)	4,759.51	5,602.50	3,890.30	3,736.39	3,637.86
<u>Add :-</u>					
Employee Remuneration	1,202.97	1,128.26	1,019.78	890.15	788.02
<u>Dividends paid to Government (In direct)</u>					
Preference Shares	130.10	130.10	130.10	130.10	196.78
Ordinary shares	1,701.25	3280.18	5,314.10	3,093.48	2,100.00
<u>Tax paid to government</u>					
NBT	0.41	0.55	0.16	0.58	0.47
VAT	7.64	13.55	11.42	13.13	4.03
Other Duties – ESC	33.95	48.79	41.99	34.73	15.01
Depreciation and Ammortization	377.72	218.33	196.55	284.67	305.53
Total	8,213.55	10,422.26	10,604.40	8,183.23	7,047.70
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Value addition of the Company had gradually decreased from preceding year due to decrease in dividend on Ordinary Shares and the COVID-19 pandemic situation.

2.2 Analytical Financial Review

Important ratios relating to the Company for current and previous four years are as follows.

	2019/20	2018/19	2017/18	2016/17	2015/16
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Current Assets to Current Liabilities (Number of Turns)	6.16	7.82	6.44	8.76	9.74
Quick Ratio	6.01	7.55	6.14	8.46	9.43
Debt Equity Ratio	0.14	0.21	0.26	0.19	0.21
EPS – Earnings per Share	5.06	5.96	4.14	3.97	3.87
Dividend per Share	-	4.47	3.10	3.38	3.29
Gross Margin	81%	79%	77%	77%	77%
Return on Equity	39%	59%	58%	46%	49%

The following observations are made.

- (a) Current assets to current liabilities ratio and quick ratio had decreased in the year under review mainly due to classification of redeemable preference shares **from non-current liability to current liability**.
- (b) Earnings per share had decreased in the year under review by Rs.0.90 due to decrease in profit after tax.

3. Operational Review

3.1 Performance

The objectives of the Company are to carry on the business of maintaining and operating flight kitchens, supply food, beverage and such other victuals as required by aircraft passengers, to operate passengers lounges for airlines, to acquire and provide warehouses, bonded stores, etc. and to carry on business as proprietors of cafes and restaurants etc. The sales income and profit / (loss) of each generating unit of the Company were as follows for the past three years.

Income Source -----	2019/20 -----		2018/19 -----		2017/18 -----	
	Total Revenue	Profit / (Loss) for the year	Total Revenue	Profit / (Loss) for the year	Total Revenue	Profit / (Loss) for the year
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Flight Kitchen	7,209.31	4,101.20	7,825.30	4,799.99	6,754.96	3,140.60
Bandaranaike International Airport Restaurant	1,219.99	435.29	1,266.32	545.76	1,210.34	544.01
Vanilla Pod	34.00	7.16	31.88	6.96	25.17	5.86
Semondu Restaurant	25.48	11.11	38.60	(6.05)	90.81	(5.72)
Transit Hotel	173.76	49.17	174.58	67.80	149.45	50.42
Emirates Lounge	128.33	65.21	140.23	73.56	133.53	67.39
Mattala Rajapaksa International Airport (MRIA) Restaurant	7.5	(1.96)	12.8	(15.47)	9.45	(21.32)
Laundry	227.75	92.33	259.95	129.96	223.81	109.06
Total	9,026.12	4,759.51	9,749.66	5,602.51	8,597.52	3,890.30

The following observations are made in this regard.

- (i) The income from Semondu Restaurant in previous year amounting to Rs.38.60 million had been decreased to Rs.25.48 million during the year under review, while the profit for the year from the restaurant has increased by Rs.17.16 million.
- (ii) Mattala Rajapaksa International Airport (MRIA) Restaurant is running at loss from the inception of the restaurant. The loss for the preceding year and the year under review was Rs.15.47 million and Rs.1.96 million respectively.

3.2 Procurement Management -----

Audit Issue -----	Management Comment -----	Recommendation -----
(a) In terms of paragraph 4.2.1 (b) of Procurement Guideline issued in	SriLankan Catering Ltd has a three year strategic	Master Procurement plan should be prepared and

January 2006 by the National Procurement Agency under the NPA Circular No.08, procurement activities envisaged at least for a period of three years shall be listed in the Master Procurement Plan and it shall be regularly updated at intervals not exceeding six months as per paragraph 4.2.1 (e) of the above guideline. However, such procurement plan had not been prepared by the Company.

plan which includes capital expenditure budget as well. However, due to the nature of business a procurement plan for raw material is prepared annually. A copy of the annual procurement plan prepared for year 2019 is attached herewith.

regularly updated at intervals not exceeding six months.

(b) In terms of paragraph 4.2.2 (b) of the above mentioned procurement guideline Procurement Time Schedule (PTS) shall be prepared in two stages and approved by the respective procurement committee. However the Company had not prepared procurement time schedules for all procurement activities during the year under review.

Currently, PTS is prepared for procurements valued above LKR 5 million.

The procurement time schedule should be prepared for all procurement activities.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Issue

Due to failure of aware the United Nations Sustainable Development Agenda for the year 2030, the Sri Lankan Catering Limited had been failed to identify the sustainable development goals and targets relating to the activities thereof, along with the milestones in respect of achieving those targets, and the indicators for evaluating the achievement of such targets.

Management Comment

The Company works with the parent company (Sri Lankan Airlines Ltd) in achieving Sustainable Development Goals as a group.

Recommendation

Action should be taken to identify the sustainable development goals and targets adhere to achieve such goals and targets. .