

Sri Lankan Catering Limited – 2017/2018

1. Financial Statements

1.1 Opinion

The audit of the financial statements of Sri Lankan Catering Limited for the year ended 31 March 2018 which comprising the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and the 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 published with the annual report of the company in terms of section 12 of the National Audit Act, appear in this report. My report to parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course. 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 31st March 2018, and of its financial performance and cash flows for the year then ended were prepared in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards. 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 the 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 the management determines, 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 have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per the 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 Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs 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 SLAuSs, 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 management.
- Conclude on the appropriateness of 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.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during my audit.

2. Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007 and section 6(1)(d) and section 12 of the National Audit Act No. 19 of 2018. I state the followings.

- a. The basis of opinion and scope and limitations of the audit are as stated above.
- b. In my opinion :
 - I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
 - The financial statements of the company comply with the requirement of section 151 of the Companies Act No.07 of 2007.
 - The financial statements of the company is consistence with the preceding year.
 - Includes the recommendations made by me in the previous year.
 - Other than the information given in paragraph 2.2 of this report, nothing has come to my attention that causes me to believe any direct or indirect interest in any contracts have been entered into by the Company with any member of the governing body.
- c. Audit issues, limited to matters that are material on the following are stated in this report
 - Compliance with any applicable written law or other general or special directions issued by the governing body of the Company.
 - Performed according to its powers, functions and duties.
 - Procured and utilized the resources economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

2.1 Non – Compliance with Sri Lanka Accounting Standards

The value of the equipment purchased for Mattala airflight operations amounting to Rs.59,534,711 had been impaired by 20 per cent each year and the impairment provision as at 31 March 2018 was Rs.11,241,785. However evidence had not been made available to audit whether an impairment test had been done or a board dicission had been taken thereon.

2.2 Related Party Transactions

Out of the trade receivable of Rs 5,976 million shown in the statement of financial position as at 31 March 2018, a sum of Rs 5,362 million represents 57 per cent should be recovered from the Sri Lankan Airlines Limited (the parent Company). However the Company had declared dividend amounting to Rs 5,314 million to Sri Lankan Airlines Ltd of during the year under review despite of above long outstanding balance.

2.3 Non –compliance with Laws, Rules, Regulations and Management Decisions, etc.

Reference to Laws, Rules, Regulations and Management Decisions	Non- compliance
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(a) Public Enterprises Circular No.PED/12 Dated 02 June 2003	
(i) Paragraph 7.4.5	Annual Board of Survey had not been carried out by the Company.
(ii) Paragraph 9.3.1 (i)	The Scheme of Recruitments and Promotions (SOR) of the Company had not been approved by the line Ministry with the concurrence of the General Treasury.

3. Financial Review

3.1 Financial Result

- (a) According to the financial statements presented the operations of the Company had resulted in a net profit of Rs.3,890,304,533 as compared with the corresponding profit of Rs. 3,736,386,777 in the preceding year thus indicating an increase of Rs.153,917,756 in the financial result of year under review. The increase of flight kitchen income by Rs.1,228,466,497 during the year under review had mainly affected to this improvement.

3.2 Analytical Financial Review

Important ratios are given below.

Description	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>	<u>2013/14</u>
Current Assets to Current Liabilities(Number of Turns)	6.44	8.76	9.74	9.50	8.72
Quick Ratio	6.14	8.46	9.43	9.03	8.26
Debt Equity Ratio	0.26	0.19	2.1	0.55	0.66
EPS – Earnings per Share	4.14	3.97	3.87	2.33	2.41
Dividend per Share	2.27	3.38	3.29	2.23	1.36
Gross Margin	77%	77%	77%	76%	75%
Return on Equity	58%	46%	49%	37%	49%

The following observations are made.

- (a) Current ratio and quick ratio had decreased in the year under review mainly due to increase in short term loans and borrowings and trade payables.
- (b) Earnings per share had increased in the year under review and preceding year by 17 per cent and 10 per cent respectively due to increase in profit after tax.

4. Operational Review

4.1 Transactions in contentious nature

It was observed that there was a difference of Rs.20,647,193 between the system generated Cost of Sales Report and auditor's own calculation, due to non-availability of system to value inventory as at the date of issueing stock.

4.2 Human Resource Management

Information relating to the approved cadre and actual cadre of the Company as at 31 March 2018 are given below.

Service Category	Approved Cadre	Actual Cadre	Vacancies
Executives	1,074	60	13
Supervisors/Technical Officers/Salesman		596	
Skilled and Semi-skilled Workers		194	
Casual and Trainees		211	
Total	1,074	1,061	13

The cadre had been approved by the Board as a total staff without considering the cadre for separate service categories.

5. Achievement of Sustainable Development Goals

Since the Sri Lankan Catering Limited had not aware about the 2030 Agenda for “Achievement of Sustainable Development Goals”, actions had not been taken 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.

6. Systems and Controls

The deficiencies observed during the course of audit were brought to the notice of the Chairman of the Company. Special attention is needed in respect of the following areas of control.

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| (a) Asset Management | (i) Board of Survey and asset valuation not being carried out.
(ii) No proper asset coding system available in the Company |
| (b) Information Technology Management | Password and account lock out configurations for the Active Directory were not in line with best practices. |

