

Sri Lankan Catering Limited – 2018/2019

1.1 Opinion

The audit of the financial statements of the Sri Lankan Catering Limited (“Company”) for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 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 2019, 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

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.

Entities are 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.

1.5.2 Related Party Transactions

Audit Issue	Management Comment	Recommendation
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<p>Receivable of Rs.7,627 million from Sri Lankan Airlines Limited (“The Parent Company”) as at the end of year under review was 61 percent of the total assets of the Company valued at Rs.12,590 million. Further, during the year the Company has declared and paid dividend to Sri Lankan Airlines Ltd amounting to Rs.3,280 million despite of above long outstanding balance.</p>	<p>Settlement of dues by SLA is on our demand. We request funds from SLA when it is really necessary only. Declaration and payment of dividend to SLA is subject to the approval of the Board. Further, the payment of dividend by SLC is made in cash which is received from SLA by way of settlement of debtor balances.</p>	<p>A procedure should be adopted to recover the receivable from Sri Lankan Airlines Limited in a timely manner.</p>

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

Instances of non-compliance with the following Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
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(a) Public Enterprises Circular No.PED/12 dated 02 June 2003 on Public Enterprises Guidelines for Good Governance			
(i) Paragraph 9.2 (d)	The Organization Chart and the approved cadre of the Company had not been registered with the Department of Public Enterprises, General Treasury.	The organization chart and carder duly approved by the Board have been submitted to the Department of Public Enterprise and General Treasury.	Approval for the organization chart and the cadre should be obtained from General Treasury.
(ii) Paragraph 9.3.1 (i)	The Scheme of Recruitments and Promotions (SOR) of the Company had not been approved by the Ministry concerned with the concurrence of the General Treasury.	We have a scheme of recruitment and promotions approved by the Board.	Concurrence of the General Treasury and approval of the Ministry concerned should be obtained for the SOR of the Company.

2. Financial Review

2.1 Financial Result

(a) The Company had resulted in a net profit of Rs. 5,602 million as compared with the corresponding profit of Rs. 3,890 million in the preceding year. Thus indicating an increase of Rs.1,712 million in the financial result of year under review. The reason for the increase is mainly due to the increase in flight kitchen income on revenue activities amounting to Rs.1,070 million for the year under review.

(b) The value addition from the company had been increased gradually from the year 2014/15 to 2018/19.
Details are given below.

Description	2018/19	2017/18	2016/17	2015/16	2014/15
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	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Profit after Tax (before payment of dividends)	5,602.50	3,890.30	3,736.39	3,637.86	2,192.12
Add :-					
Employee Remuneration	1,128.26	1,019.78	890.15	788.02	704.79
<u>Dividends paid to Government (In direct)</u>					
Preference Shares	130.10	130.10	130.10	196.78	300.00
Ordinary shares	3280.18	5,314.10	3,093.48	2,100.00	2,100.00
<u>Tax paid to government</u>					
NBT	0.55	0.16	0.58	0.47	0.21
VAT	13.55	11.42	13.13	4.03	5.59
Other Duties – ESC	48.79	41.99	34.73	15.01	14.26
Depreciation	207.61	188.02	282.51	303.81	278.13
Total	10,411.54	10,595.88	8,181.09	7,045.97	5,595.10
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Value addition of the Company had gradually increased up to the preceding year mainly due to increase in profit and dividend on Ordinary Shares. However, it had been decreased during the year under review due to decrease the declaration of ordinary share dividend though the profit after tax increased by Rs.1.8 billion.

2.2 Analytical Financial Review

Important ratios relating to the company position as at 31 March for five years are as follows.

	2018/19	2017/18	2016/17	2015/16	2014/15
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Current Assets to Current Liabilities(Number of Turns)	7.82	6.44	8.76	9.74	9.50
Quick Ratio	7.55	6.14	8.46	9.43	9.03
Debt Equity Ratio	0.21	0.26	0.19	0.32	0.55

EPS – Earnings per Share	5.96	4.14	3.97	3.87	2.33
Dividend per Share	4.47	3.10	2.27	3.38	3.29
Gross Margin	79%	77%	77%	77%	76%
Return on Equity	58%	58%	46%	49%	37%

The following observations are made.

- (a) Current assets to current liabilities ratio and quick ratio had increased in the year under review mainly due to increase in receivables and short term investments by hundred percent.
- (b) Earnings per share had increased in the year under review and preceding year by Rs.1.82 and Rs.0.17 respectively due to increase 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	2018/19		2017/18		2016/17	
	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	7,825.30	4,799.99	6,754.96	3,140.60	5,526.50	3,053.39
Bandaranaike International Airport	1,266.32	545.76	1,210.34	544.01	1,104.49	479.31
Vanilla Pod	31.88	6.96	25.17	5.86	22.23	5.35
Semondu Restaurant	38.60	(6.05)	90.81	(5.72)	78.36	4.09
Transit Hotel	174.58	67.80	149.45	50.42	113.69	36.25

Emirates Lounge	140.23	73.56	133.53	67.39	143.39	72.62
Mattala Rajapaksa International Airport (MRIA) Restaurant	12.8	(15.47)	9.45	(21.32)	28.84	(10.14)
Laundry	259.95	129.96	223.81	109.06	198.63	95.51
Total	9,749.66	5,602.51	8,597.52	3,890.30	7,216.13	3,736.39

The following observations are made in this regard.

- (i) Income from Semondu Restaurant had been decreased from Rs.90.81 million to Rs.38.60 million during the year under review.
- (ii) Mattala Rajapaksa International Airport (MRIA) Restaurant is getting losses from the inception and during the year under review a loss amounting to Rs.15.47 million had been incurred thereon.

3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) The Company had not implemented 109 No of capital procurement activities which is about 55 percent out of the 200 No of total procurement activities.	Certain projects were delayed due to lengthy procurement processes which need to be followed as per government procurement guidelines.	Procurement plan should be prepare in a realistic and achievable manner.
(b) Though a senior officer of the procurement entity shall be the non-member secretary for Department Procurement Committee, as per the paragraph 2.7.5. Of procurement manual dated 11 th October 2006, a Secretary to the Department Procurement Committee had not been appointed to the Company.	Throughout the period, Manager Procurement and Shipping acted as a non-member secretary for Department procurement committee. Specific approval had not been obtained as per paragraph 2.7.5 of the procurement manual. However, necessary approval from PC will be obtained for the appointment of a Secretary to the Enterprises Procurement Committee (EPC).	Secretary to Enterprises Procurement Committee should be appointed.

3.3 Human Resource Management

Audit Issue

It was observed in audit that there were 24 vacancies as at the end of the year under review. The categories of vacancies in employees couldn't be identified, because the cadre had been approved by the Board as a bulk and not for separate service categories.

Management Comment

Company cadre is approved by the Board based on the divisions/staff grades/executives. We also possess a detailed grade wise breakdown for each category. With regard to vacancies, the management is of the view that the productivity needs to be improved to achieve efficiency levels of the organization. Therefore, there is a continuous effort being made to reduce the cadre ongoing basis depending on activity level.

Recommendation

The cadre should have to be approved by the Board by recognizing separate service categories instead of approving as a whole.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Issue

Due to failure of the Sri Lankan Catering Limited in being aware of the United Nations Sustainable Development Agenda for the year 2030, action 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.

Management Comment

We have not been informed of such development goals.

Recommendation

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