

## **Sri Lankan Catering Limited -2020/2021**

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### **1.1 Opinion**

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The audit of the financial statements of the Sri Lankan Catering Limited (“Company”) for the year ended 31 March 2021 comprising the statement of financial position as at 31 March 2021 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 2021, 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 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

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

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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 Related Parties and Related Party Transactions

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### Audit Issue

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As at 31 March 2021 total trade receivables of the company was Rs.6,258 million and it was observed that 99 percent or Rs.6,200 million from that balance which was receivable from Sri Lankan Air Lines Ltd. Out of that balance Rs.5,919 million was remained unpaid for more than one year. Further, the balance receivable from Sri Lankan Air Lines Ltd as at 31 March 2021 was represented the 64 percent of the total assets of the company which was amounting to Rs.9,675 million. Further, letters of comfort from both Sri Lankan Airlines Limited and Ministry of Finance, Economy and Policy Development had been issued to ascertain the recoverability of said balance.

However, the impairment of receivables had not been identified in accounts as per SLFRS 09 using a provision matrix in the determination of the life time expected credit losses.

### Management Comment

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

### Recommendation

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Receivable from Sri Lankan Airlines should be recovered.

## 1.7 IT General Controls

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<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
a) The Disaster Recovery (DR) Site had 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.	Company is in process of evaluating a cost-effective DR solution for SLC. However, this is now on hold due to new public finance circular issued on government expenditure.	Company should evaluate the importance of implement a DR solution.
b) Information Security (IS) Policy and Information and Communication Technology (ICT) End User Security Policy had not been approved by the Board and had been in draft stage for a significant period.	IT policy and procedure document has been reviewed and approved by Group IT. Necessary approvals will be obtained from the Audit Committee/Board subject to the provisions of the new public finance circular issued on government expenditure.	The IS policy and ICT end user security policy should be approved by the board and it should be reviewed and updated regularly.

## 2. Financial Review

### 2.1 Financial Result

The Company had resulted in a net loss of Rs.903 million as compared with the corresponding profit of Rs.4,763 million in the preceding year. Thus indicating a deterioration of Rs.5,666 million in the financial result of year under review. The reason for the deterioration is mainly due to the decrease in flight kitchen income amounting to Rs.473 million for the year under review as compared with that income amounting to Rs.7,209 million during the preceding year.

### 2.2 Financial Analysis

The value addition from the company had been decreased gradually from the year 2017/18 to 2020/21. Details are given below.

<b>Description</b> -----	(Rs.Million)				
	<b>2020/21</b> -----	<b>2019/20</b> -----	<b>2018/19</b> -----	<b>2017/18</b> -----	<b>2016/17</b> -----
Profit after Tax (before payment of dividends)	(903.40)	4,759.51	5,602.50	3,890.30	3,736.39
<b>Add :-</b>					
Employee Remuneration	948.52	1,202.97	1,128.26	1,019.78	890.15
<u>Dividends paid to Government</u> <u>(In direct)</u>					
Preference Shares	16.40	130.10	130.10	130.10	130.10
Ordinary shares	3,569.63	1,701.25	3280.18	5,314.10	3,093.48

Tax paid to government

NBT	-	0.41	0.55	0.16	0.58
VAT	2.59	7.64	13.55	11.42	13.13
Other Duties – ESC	-	33.95	48.79	41.99	34.73
Depreciation and Amortization	449.72	377.72	218.33	196.55	284.67
<b>Total</b>	<b>4,083.45</b>	<b>8,213.54</b>	<b>10,422.25</b>	<b>10,604.41</b>	<b>8,183.24</b>

Value addition of the Company had gradually increased up to the year 2017/18 mainly due to increase in profit and dividend on Ordinary Shares. However, it had been decreased from 2018/19 to 2019/20 due to decrease in dividend on Ordinary Shares and it had been decreased moreover during the year under review due to the decrease in profit because of spreading COVID-19 pandemic.

## 2.2 Analytical Financial Review

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

	2020/21	2019/20	2018/19	2017/18	2016/17
Current Assets to Current Liabilities (Number of Turns)	16.67	6.16	7.82	6.44	8.76
Quick Ratio	16.26	6.01	7.55	6.14	8.46
Debt Equity Ratio	0.19	0.14	0.21	0.26	0.19
EPS – Earnings per Share	(0.96)	5.06	5.96	4.14	3.97
Dividend per Share	-	3.80	4.47	3.10	3.38
Gross Margin	53%	81%	79%	77%	77%
Return on Equity	(12%)	39%	59%	58%	46%
Stock Turnover Ratio	1.33	5.19	5.99	6.35	6.22

The following observations are made.

- Current assets to current liabilities ratio and quick ratio had increased in the year under review mainly due to decrease in current liabilities as decrease in redeemable preference shares by hundred percent and decrease in trade payables and other payables.

(b) Earnings per share had decreased in the year under review by Rs.6.02 up to minus 0.96 due to the company had made a loss after tax.

(c) During the year under review the stock turnover ratio has been decreased by 74 percent due to weak sales during the year under review.

### 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	2020/21		2019/20		2018/19	
	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	475.80	(713.66)	7,219.43	4,101.20	7,825.30	4,799.99
Bandaranaike International Airport Restaurant	87.05	(126.83)	1,219.99	435.29	1,266.32	545.76
Vanilla Pod	49.31	11.15	34.00	7.16	31.88	6.96
Semondu Restaurant	8.25	(4.14)	25.48	11.11	38.60	(6.05)
Transit Hotel	(1.08)	(35.86)	173.76	49.17	174.58	67.80
Emirates Lounge	22.76	6.03	128.33	65.21	140.23	73.56
Mattala Rajapaksa International Airport (MRIA) Restaurant	24.36	(2.21)	7.5	(1.96)	12.8	(15.47)
Laundry	9.86	(34.65)	227.75	92.33	259.95	129.96
Frozen Meal (Newly introduced )	17.70	(3.24)	-	-	-	-
<b>Total</b>	<b>694.01</b>	<b>(903.41)</b>	<b>9,036.24</b>	<b>4,759.51</b>	<b>9,749.66</b>	<b>5,602.51</b>

The following observations are made in this regard.

- (i) Mattala Rajapaksa International Airport (MRIA) Restaurant is getting losses from the inception. Loss for the preceding year and the year under review was Rs.1.96 million and Rs.2.21 million respectively while increasing the loss for the year under review by Rs.0.25 million.
- (ii) The newly introduced income source which is Frozen meal had also incurred a loss of Rs.3.24 million for the year under review.

#### **4. Accountability and Good Governance**

##### **4.1 Sustainable Development Goals**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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.	The Company was not informed about the Sustainable Development Goals by the Ministry. However, the Company works with the parent company (SriLankan Airlines Ltd) in achieving Sustainable Development Goals as a group.	Action should be taken to identify the sustainable development goals and targets adhere to achieve such goals and targets. .