

## **Sri Lankan Catering Limited -2016/ 2017.**

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The audit of financial statements of the Sri Lankan Catering Limited (“the Company”) for the year ended 31 March 2017 comprising the statement of financial position as at 31 March 2017 and the statement of profit and loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice. This report is issued in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka. A detailed report of the Company had been issued to the Chairman on 13<sup>th</sup> September 2017.

### **1.2 Management’s Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lankan Catering Limited as at 31 March 2017 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **2.1.1 Report on Other Legal and Regulatory Requirements**

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As required by Section 163(2) of the Companies Act, No.07 of 2007, 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 explanations 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 requirements of Section 151 of the Companies Act, No. 07 of 2007.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Accounting Standard (LKAS) 36 - Impairment of Assets**

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No impairment test had been done or no Board decision had been taken thereon. Hence the completeness and accuracy over the impairment provision of Rs.11,241,785 represent 20 per cent of the cost of Rs.59,534,711 made for each year relating to the equipment purchased for Mattala airflight operations could not be ensured.

#### **2.2.2 Related Party Transactions**

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Out of the total assets of the Company as at the end of the year under review amounting to Rs.10,571 million, the amount receivable from Sri Lankan Airlines Limited (“The Parent Company”) was Rs.6,707 million which represent 63 percent of the total assets of the Company. However, no disclosure had been made in the notes to the financial statements.

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

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non- compliance</b>
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Public Enterprises Circular No.PED/12 dated 02 June 2003.	
(i) Paragraph 7.4.5	Annual board of surveys had not been carried out for the year 2016/2017.
(ii) Paragraph 9.2 (d)	The Organization Chart and the Cadre of the Company had not been registered with the Department of Public Enterprises, General Treasury.
(iii) 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.

## 3. Financial Review

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### 3.1 Financial Result

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The Company had resulted a net profit of Rs.3,736,386,777 as compared with the corresponding profit of Rs.3,637,855,159 in the preceding year indicating an increase of Rs.98,531,618 in the financial result of year under review. The increase in flight kitchen income of Rs.555,640,220 had mainly affected to the increase of the financial result.

### 3.2 Analytical Financial Review

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The important ratios of the Company for the year under review and preceding four years are given below.

	2016/17	2015/16	2014/15	2013/14	2012/13
Current Assets to Current Liabilities(Number of Turns)	8.76	9.74	9.50	8.72	6.19
Quick Ratio	8.46	9.43	9.03	8.26	5.62
Debt Equity Ratio	0.19	0.21	0.44	0.55	0.63
EPS – Earnings per Share	3.97	3.87	2.33	2.41	1.51
Dividend per Share	3.38	3.29	2.23	1.36	2.39
Gross Margin	77%	77%	76%	75%	77%
Return on Equity	46%	49%	37%	49%	38%

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 increase in trade payables and other payables.
- (b) Earnings per share had increased in the year under review and preceding year by 10 cents and Rs.1.54 respectively due to increase in profit after tax. However comparatively growth rate of earning per share has decreased by 96 percent.

#### 4. Operational Review

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##### 4.1 Performance

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As per the Articles of Association, the objectives of the Company are to carry on the business of maintaining and operating flight kitchens, supply of 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 & restaurants etc. The sales income and profit / (loss) of each generating unit of the Company were as follows.

Income Source	Total Revenue	Profit/ (Loss) for the Year
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	Rs.Mn	Rs.Mn
Flight Kitchen	5,526.50	3,053.39
Bandaranaike International Airport (BIA) Restaurant	1,104.49	479.31

Vanila Pod	22.23	5.35
Semondu Restaurant	78.36	4.09
Transit Hotel	113.69	36.25
Emirates Lounge	143.39	72.62
Mattala Rajapaksa International Airport (MRIA) Restaurant	28.84	(10.14)
Laundry	198.63	95.51
Total	7,216.13	3,736.39

Mattala Rajapaksa International Airport (MRIA) restaurant had occurred a loss of Rs.10.14 million represent 35 percent of the total revenue during the year under review.

#### 4.2 Human Resource Management

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The Board approved cadre of the Company as at 31 March 2017 was 1046 and the actual cadre was 1022. Thus there were 24 vacancies as at the end of the year under review. However The cadre of the Company had been approved as a total staff without identifying the senior, middle and lower level or separate service categories.

#### 5. Achievement of Sustainable Development Goals

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Since the Sri Lankan Catering Limited is not aware about the said Agenda of the “Achievement of Sustainable Development Goals” 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.

#### 6. Systems and Controls

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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.

<b>Area of Control</b>		<b>Observation</b>
(a)	Human Resource Management	Cadre and Scheme of Recruitment not being approved by the Ministry concerned with the concurrence of General Treasury.
(b)	Asset Management	No proper asset coding system available in the Company and Board of Survey not being carried out.
(c)	Information Technology Management	Approved and documented roles and responsibilities for granting user access rights in all available systems were not available and also a formal periodic review of user access rights had not been carried out. Further password and account lock out configurations for the Active Directory were not in line with best practices.
(d)	Accounting System	Sequential order of Journal Entries and payment vouchers had not been ensured in the system.