

Sri Lankan Catering Limited -2021/ 2022

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sri Lankan Catering Limited (“Company”) for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 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 2022, 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 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 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 Audit Observations on the preparation of 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.6 Accounts Receivable and Payable

1.6.1 Payables

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| A long term outstanding payment amounting Rs.6,200,000 to be paid for the hiring of snorkel lift for Mihin Lanka Private Limited for the period of 01 August 2010 to 31 May 2015. | Mihin Lanka Private Limited is no longer in existence and this provision will be reversed after discussing with legal department. | Mihin Lanka Private Limited is under the liquidation process. Provision should not be reversed. |

1.7 Cash Management

| Audit Issue | Management Comment | Recommendation |
|--|---|--|
| It was observed that there is a bank account that shows the same balance of Rs.97,750 in the previous year and in the year under review. Maintaining and monitoring inactive accounts uses resources that could be better used elsewhere and may present an opportunity for the account to be used for inappropriate or fraudulent purposes. | This account has been opened solely for the purpose of executive payments such as compensation and reimbursement expenses with high confidentiality. However, no such payments were made during the last few years. Company will reassess the requirement again and decide the right cause of action. | A review of open bank accounts should be carried out periodically to identify dormant accounts. Any accounts that are no longer required should be closed. |

1.8 IT General Controls

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| (a) Although establishing a privileged user account monitoring function would facilitate the investigation of security breaches, program change deployments, and user activities done using privileged user accounts, the company had not performed any privileged user account monitoring function for application, database, and operating system levels of Oracle EBS system during the year under review. | The user account monitoring function is currently carried out in every quarter. Company would include privileged user account function for the same. | The company should periodically conduct the privileged user account monitoring function to ensure that only authorized activities are performed in the IT environment. Further, the company should ensure adequate security monitoring controls are available for third party activities associated with privileged access management procedures. |
| (b) Since application level audit logs in Oracle EBS systems are not available, the system is unable to trigger the activities which have been performed by a specific application level user account. | Due to a lack of space in the Oracle EBS server, the company is unable to enable audit logs in the system. However, it is planned to review the entire IT system (both Oracle & Inflair) and take appropriate action accordingly. | Application level audit logs should be designed to capture all the activities of the user accounts during the period of system access. Furthermore, regular monitoring procedures are encouraged as a detective control in order to track unauthorized user activities in the system. |
| (c) Although adequate password configurations mitigate the risk of unauthorized access, specific password security parameters were not adequately configured in inflairnet systems. | At present INFLAIR application does not have the forced password changes feature. However, it is planned to review the entire IT system (both Oracle & Inflair) and take appropriate action accordingly. | The entire IT system (both Oracle & Inflair) should be reviewed and take appropriate action accordingly. |
| (d) User accounts of resigned employees were not deactivated on a timely basis in the Oracle EBS system. | User accounts will be deactivated/deleted based on the IT Clearance Form. IT Department has advised HR Department to share the exit information of employee as soon the user leaves the organization. | The user accounts of resigned/retired/transferred employees need to be deactivated on their respective dates of resignation, at the end of the business day. |

- | | | |
|--|---|--|
| <p>(e) Data fields in Creation Date, Deactivation Date, Last login Date and User Status (Active/Inactive) and deactivation Date were not captured in the system generated user lists of In flairnet and hSenid systems respectively.</p> | <p>We have requested the vendor to do the necessary changes in the system to obtain required information.</p> | <p>Information maintained in the system generated user lists, in addition to those currently present, should address the mentioned data fields: Creation Date, Deactivation Date, Last Login Date, User Status (Active/Inactive)</p> |
| <p>(f) Six non-utilised user accounts in identified sample exist in Oracle EBS system, as at 31 March 2022. The presence of non-utilised active user accounts within a system significantly increases the chances of an individual gaining unauthorized access to the application. Furthermore, this could result in lack of accountability and misuse of information accessible through these accounts.</p> | <p>Every month end IT Department will check the non-utilised user accounts and inform the respective department head and deactivate the account.</p> | <p>It is important to promptly deactivate such user accounts from the applications.</p> |
| <p>(g) Company had not performed an Information Systems Audit either as part of internal audit services or as an independent external review exercise for hSenid system. Absence of an Information Systems Audit could result in management being unable to obtain reliable financial reporting on its operations and also in preventing or reducing fraud and misappropriation of its assets which may result in failure to achieve the company's objectives.</p> | <p>Internal Audit (GAAS) conducted audits for the financial year 2021/22 for the business-critical applications such as Oracle EBS and INFLAIR. An internal audit is being conducted by GAAS for HRIS application (hSenid/Peoples HR) for the financial year 2022/23.</p> | <p>Company should performed an Information Systems Audit to ensure that controls over the IT environment are operating effectively.</p> |

2. Financial Review

2.1 Financial Result

Following observations are made.

- (a) The operating result of the year under review amounted to a profit of Rs.2,854,795,430 and the corresponding loss in the preceding year amounted to Rs.857,323,179. Therefore an improvement amounting to Rs.3,712,118,609 of the financial result was observed. The reasons for the improvement are increase in revenue by Rs.3,210,697,458.
- (b) The value addition from the company had decreased gradually from the year 2017/18 to 2020/21 and it had slightly increased in the year 2021/22. Details are given below.

| Description | (Rs. Million) | | | | |
|--|-----------------|-----------------|-----------------|------------------|------------------|
| | 2021/22 | 2020/21 | 2019/20 | 2018/19 | 2017/18 |
| Profit after tax (Before payment of dividends) | 2,802.70 | (909.23) | 4,759.51 | 5,602.50 | 3,890.30 |
| Add :- Employee remuneration | 1,147.42 | 948.52 | 1,202.97 | 1,128.26 | 1,019.78 |
| Dividends paid to Government (Indirect) | | | | | |
| Preference Shares | | 81.27 | 130.10 | 130.10 | 130.10 |
| Ordinary Shares | | 3,569.63 | 1,701.25 | 3,280.18 | 5,314.10 |
| Tax Paid to government | | | | | |
| NBT | | | 0.41 | 0.55 | 0.16 |
| VAT | | 2.59 | 7.64 | 13.55 | 11.42 |
| Other Duties- ESC | | | 33.95 | 48.79 | 41.99 |
| Depreciation and Amortization | 467.32 | 454.38 | 377.72 | 218.33 | 196.55 |
| Total | 4,417.44 | 4,147.16 | 8,213.55 | 10,422.26 | 10,604.40 |

2.2 Analytical Financial Review

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

| | 2021/22 | 2020/21 | 2019/20 | 2018/19 | 2017/18 |
|---|---------|---------|---------|---------|---------|
| Current Assets to Current Liabilities (Number of Turns) | 12.58 | 16.67 | 6.16 | 7.82 | 6.44 |
| Quick Ratio | 12.30 | 16.26 | 6.01 | 7.55 | 6.14 |
| Debt Equity Ratio | 0.10 | 0.19 | 0.14 | 0.21 | 0.26 |
| EPS- Earning Per Share | 2.98 | (0.96) | 5.06 | 5.96 | 4.14 |
| Dividend Per Share | - | - | 3.80 | 4.47 | 3.10 |
| Gross Margin | 74% | 53% | 81% | 79% | 77% |
| Return On Equity | 26% | (12%) | 39% | 59% | 58% |
| Stock Turnover ratio | 4.77 | 1.33 | 5.19 | 5.99 | 6.35 |

The following observations are made

- (a) Current assets to current liabilities ratio and quick assets ratio had increased in the year under review mainly due to decrease in trade payables and other payables.
- (b) Since the company earn profit for the year under review, earning per share had increased in this year by 3.94 compared to previous year.