

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the SriLankan Catering Limited (“Company”) for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 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 reported 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 2023, 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 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

| Reference to Laws, Rules, Regulations etc. | Non-compliance | Management Comment | Recommendation |
|--|--|--|--|
| Section 9.2 of the Public Enterprise Circular No; PED 12 dated 06 June 2003 and Guidelines & Employment of Consultant – 2007 | As per the decision of the Board of Directors dated 29 November 2020, a procurement consultant had been appointed on the contract basis for the one year period from 01 December 2020 at a monthly salary of Rs.300,000 on the basis of providing services for the SriLankan Airlines Limited and the SriLankan Catering Limited without the approval of the Department of Public Enterprises and following the procurement process as required by the Guidelines & Employment of Consultant – 2007. Further, one year contract period had been extended continuously and paid consultancy fees amounting to Rs.2.8 million during the period from 01 December 2021 to August 2023. However, no evidence such as attendance reports and work done reports were submitted to the audit. | Procurement consultant has been appointed by the SriLankan Airlines Limited with the Board approval. All necessary information has already been provided by the SriLankan Airlines Limited in this regard. | Action should be taken to avoid these practices and take actions against the responsible officers. |

1.6 IT General Controls

| Audit Issue | Management Comment | Recommendation |
|---|--|--|
| (a) According to the section 4.6.2.5 of the SriLankan Airlines - Corporate Information Security and Privacy Management Manual, the Company had not performed any review over user access rights in the year under review. Absence of general user access reviews may result in management being | Review of User Access Rights for the System was completed by the date of 18 December 2023 and Going forward, reviews of User Access Rights to Systems will be streamlined and completed at least annually as per the manual. | It is imperative for the company to periodically review the user access rights of general system user accounts of all the critical systems and maintain adequate documentation, in order to establish that the |

unaware of inappropriate access rights being granted to general users and this could lead the management to inability in tracing and verifying that the access rights that are granted to the some systems.

procedure has been properly executed and documented.

(b) Data fields such as Creation Date, Last Login Date, Deactivation Date, Inactive Users were not captured in the system generated user list of Inflair Inflight system. Due to the absence of deactivation date, management may not be able to verify the timely deactivation of the user accounts. Without the last login date, in case of a discrepancy, management may not be able to verify the login date to the system by users. Further, without the user status, it is hard to verify the current user account status of users in the system.

A Change Request has already been raised to the vendor on 25 April 2023 to see the capabilities to enhance the report format with the missing fields.

It is essential to maintain the user creation date in the system generated user lists.

(c) User accounts of resigned employees were not deactivated on a timely basis in some system as at 31 March 2023. Inadequate procedures over timely deactivation of user accounts of resigned/retired/ transferred employees could result in significant issues when allocating responsibilities for business transactions.

Identified accounts have been deactivated and User Clearance Process will be streamlined to promptly deactivate user accounts at exit.

It is important to promptly remove access to the organization's applications from the employees who have resigned/retired/transferred since it will help to mitigate the risk of these accounts being misappropriated.

(d) One of the user accounts of Inflair system has been commonly assigned and shared among the employees who work in kitchen. Sharing of a user account in an application could result in significant issues when allocating responsibilities for business transactions. The company may not in a position to identify the exact person who raised the transactions since that account has been utilized by a group of employees. Further, an individual person could not be held responsible for such transactions since a group of users have shared the same user account.

Although the account is common and shared, their activities are verified and reconciled by corresponding stations. Further, the common account is within one user department whose physical movement and attendance is tracked by compensating controls to increase accountability of their actions. Nevertheless, the identified accounts herein have since been deactivated and separate user accounts delivered to the respective users.

The leading practice is to prohibit user account that had been shared among employees to facilitate the investigation of security breaches.

- | | | |
|--|--|--|
| <p>(e) Application, database and operating system level audit logs have not been enabled in Oracle EBS system and database and operating system level audit logs have not been enabled in Inflair Inflight system. As a result, the system is unable to trigger the activities which have been performed by a specific application, database, or operating system-level user account.</p> | <p>Change Request has been raised to the vendor on 25 April 2023 to see the capabilities to enable the audit logs. Oracle: Audit logs for Oracle have since been enabled.</p> | <p>Audit logs at application, database, and operating system levels should be designed to capture all the activities of the user accounts during the period of application, database, or operating system access. Furthermore, regular monitoring procedures are encouraged as a detective control to track unauthorized user activities in applications, databases, or operating systems.</p> |
| <p>(f) The company has not adequately configured the password security parameter in the Inflair Inflight system. The combination of these parameters should be set so as to prevent user from utilizing the same password configurations to mitigate the risk of unauthorized access.</p> | <p>Change Request has been raised to the vendor on 25 April 2023 to change the password settings.</p> | <p>It is an important aspect of the security of information systems to enforce adequate password configurations to mitigate the risk of unauthorized access.</p> |
| <p>(g) The existing “Corporate Information Security Privacy Management” manual document of Sri Lankan Airlines Limited, which governs Sri Lankan Catering Limited, does not consist of clauses over current practice of manual access management and change management procedures of Sri Lankan Catering Limited. Management should set a clear policy direction in line with business objectives/ requirements and demonstrate support for, and commitment to, user access management and change management through the maintenance of a comprehensive user access management and change management procedure across the organization, as inadequacies exist over user access management and change management procedures in the existing</p> | <p>The current practice of user access and change management is through manual forms. This will be changed to a Change Management system by Q2 of 2024. A new system is being evaluated at SriLankan Airlines and SriLankan Catering intends to adhere to the same system.</p> | <p>It is critical that management understand the importance and define clauses over access management and change management aspects in the existing policy document which governs Sri Lankan Catering Limited to ensure that user access management and change management processes are adequately and appropriately executed.</p> |

policy of the company could lead to inappropriate actions being performed in the IT environment, which may exist without detection and also could result in fraudulent activities.

2. Financial Review

2.1 Financial Result

The following observations are made.

- (a) The operating result of the year under review amounted to a profit of Rs.6,514.14 million and the corresponding loss in the preceding year amounted to Rs.2,854.80 million. Therefore an improvement amounting to Rs.9,368.94 million of the financial result was observed. The reasons for the improvement are increase in revenue by Rs.8,640.78 million.
- (b) The value addition from the company had decreased gradually from the year 2017/18 to 2020/21 and it had slightly increased from the year 2021/22. Details are given below.

| Description | (Rs. Million) | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| | 2022/23 | 2021/22 | 2020/21 | 2019/20 | 2018/19 | 2017/18 |
| Profit after tax (Before payment of dividends) | 4,697.21 | 2,802.70 | (909.23) | 4,759.51 | 5,602.50 | 3,890.30 |
| Add :- Employee remuneration | 2,211.52 | 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 | - | 2,382.29 | 3,569.63 | 1,701.25 | 3,280.18 | 5,314.10 |
| 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 | 468.34 | 467.32 | 454.38 | 377.72 | 218.33 | 196.55 |
| Total | 7,377.07 | 6,799.73 | 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 six years are as follows.

| | 2022/23 | 2021/22 | 2020/21 | 2019/20 | 2018/19 | 2017/18 |
|---|---------|---------|---------|---------|---------|---------|
| Current Assets to Current Liabilities (Number of Turns) | 7.53 | 12.58 | 16.67 | 6.16 | 7.82 | 6.44 |
| Quick Ratio | 7.24 | 12.30 | 16.26 | 6.01 | 7.55 | 6.14 |
| Debt Equity Ratio | 0.06 | 0.10 | 0.19 | 0.14 | 0.21 | 0.26 |
| EPS- Earning Per Share | 5.00 | 2.98 | (0.96) | 5.06 | 5.96 | 4.14 |
| Dividend Per Share | - | - | 2.53 | 3.80 | 4.47 | 3.10 |
| Gross Margin | 75% | 74% | 53% | 81% | 79% | 77% |
| Return On Equity | 32% | 26% | (12%) | 39% | 59% | 58% |
| Stock Turnover ratio | 7.55 | 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 has decreased in the year under review mainly due to decrease in trade payables.
- (b) Since the company earn profit for the year under review, earning per share has increased in this year by 2.02 compared to previous year. As well, return on equity has increased by 23 percent compared to previous year.

3. Operational Review

3.1 Procurement Management

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| (a) Even though a sum of Rs.61.1 million had been incurred for acquisition of the capital assets, a Master Procurement Plan and detailed procurement plan had not been prepared for the year 2022/23 as per the Government Procurement Guidelines 4.2.1 (b) and (c) respectively. | SriLankan Catering Limited prepares the procurement plan annually, which covers a period of two years and updates it where necessary. It is not practical to prepare a procurement plan for three years as the visibility of the number of customer airlines that would cater from the SriLankan Catering Limited for the next three years is not possible. However, as highlighted, actions will be taken to prepare three year Master Procurement Plan in future. | Actions should be taken to avoid these practices in the future. |

- | | | |
|--|---|---|
| <p>(b) As per the section 2.14 of the Government Procurement Guidelines amended by Supplement 35 and the Provision of the Secretary General's of National Procurement Commission letter No.NPC/PP/01/97 dated 29 October 2020, the maximum approval limit of the CEO of the company in respect of goods contract was Rs.500,000. However, in the sample audit, it was revealed that the Chief Executive Officer of the Company had procured goods under 5 contracts amounting to Rs.28 million violating the above provisions.</p> | <p>As the authority limits of the procurement guidelines are not practical, in consultation with NPC, the company attempted to obtain an entity specific procurement manual approved since 2019. SLC having obtained the approval of the Board on 21st November 2020, requested the ministry to approve the current procurement authority limits which is still pending. Nevertheless, the Board granted approval to continue with the Board approved procurement authority limits until approval of the CAO is obtained to avoid possible disruptions to the operations.</p> <p>The relevant procurements highlighted were carried out according to the Board of Directors approved procurement limits granted to the CEO as per Board approval dated 20th January 2010 and 21st November 2020.</p> | <p>Actions should be taken to avoid these practices in future and should take necessary actions against the responsible officers.</p> |
| <p>(c) Without budgeting and following the Government Procurement Guidelines 5.4.4, 7.12.1, 7.12.2 (a) 8.7.1(b), 8.9 and 8.12.2, the Company had purchased CCTV cameras for the catering Hi-Loaders amounting to Rs.1.78 million during the year under review. However, audit revealed that these cameras were not functioning.</p> | <p>The company has given a wide publicity by inviting 11 parties to tender but only one bid was received. As the company needed to complete the job for operational requirements without delay, a decision was made to continue with a single quote. Since there is no necessity to negotiate a bid price by a TEC as the value of the procurement is below Rs.5 million. The approval for this procurement has been obtained from the CEO, which is the procurement committee for this tender. As per the supplier's request 70 percent advance has been paid and the balance paid after receiving the certificate of completion from the supplier.</p> <p>A letter of acceptance has been issued by email and a formal agreement will be signed after the expiry of the warranty period. Due to loss of signals in apron area, cameras cannot be viewed live.</p> | <p>Actions should be taken to avoid these practices in future and should take necessary actions against the responsible officers.</p> |

- | | | |
|---|--|---|
| <p>(d) The Company had procured new CCTV cameras for office area amounting to Rs.1.56 million during the year under review without following the Government Procurement Guidelines 7.12.1 and 7.12.2 (a), 8.9 and 8.12.2.</p> | <p>The company has requested price quote from the service provider for CCTV cameras at Flight kitchen since 2016 and the contract was awarded to this service provider. A formal agreement will be signed after the expiry of the warranty period. There is no violation in the procurement, which has been carried out according to Board of Directors approved procurement limits granted to the CEO as per Board approval dated 20th January 2010 and 21st November 2020.</p> | <p>Actions should be taken to avoid these practices in future and should take necessary actions against the responsible officers.</p> |
| <p>(e) The Company had purchased two ovens amounting to Rs.19.44 million during the year under review exceeding the budget allocation of Rs.6.5 million and without following the Government Procurement Guidelines provisions 2.5.1, 6.3.6, 6.3.2, 7.12.1, 7.12.2 (a), 8.10.1 and 8.12.3.</p> | <p>Additional amount was funded from owned funds without obtain any loan. However, this will be mentioned same in the board papers in the future.</p> <p>Board of directors is not a procurement committee. Please note that government procurement guidelines have been followed in this regard.</p> | <p>Actions should be taken to avoid these practices in future and should take necessary actions against the responsible officers.</p> |
| <p>(f) The budgeted provision for the renovation of the UL canteen was Rs.58.5 million and Bid had been called for renovation as a whole. However, subsequently estimated cost had been reduced to Rs.20 million and whole project had been divided into slices and awarded contracts to 30 suppliers. These small contracts had been procured without following the Government Procurement Guidelines 2.7, 2.8, 2.6.1, 4.3.1, 5.4.4, 6.3.2, 6.3.6, 7.2, 7.9.7 and 8.12.3. UL canteen had not been identified as separate profit generated unit and agreements had not been entered by the SriLankan Catering Limited with the SriLankan Airlines Limited and the Airport and Aviation Service (Sri Lanka) (Pvt) Ltd how to share the welfare benefits of UL canteen to staff of the each company. Due to delay in project planning, the Company had incurred</p> | <p>As per the decision of the management of both companies, SLC budgeted Rs.58.5 million as an estimated cost in the budget 2022/23. As per the decision of the Board of Directors, estimated renovation cost was Rs.20 million. The renovation plan takes time, main canteen was located in a temporary location until constructions are completed. There is no requirement to appoint a bid opening committee for each and every procurements under Rs.5 million. Bill of Quantity was prepared by the Maintenance Manager and he is the standard evaluation authority of the SLC without TEC for the procurements below Rs.5 million value and the Procurement committee approval can be granted by the CEO. We have not entered into an agreement with the AASL as AASL staff is not entitled to concessionary prices.</p> | <p>Actions should be taken to avoid these practices in future and should take necessary actions against the responsible officers.</p> |

additional amount of Rs.2.19 million on temporary location and actual total cost was Rs.23.29 million.

- (g) As per the Government Procurement Guidelines 4.2.2 and 4.2.3 of Procurement manual effective planning of the entire procurement process is vital to ensure timely completion of the procurement actions and obtaining the best market value for it. However, the Company had taken additional 221 days to complete the procurement of eggs. During this period a sum of Rs.7.15 million had been spent for purchasing of eggs from the registered suppliers and the unregistered suppliers over the agreed price without following the procurement guidelines 3.6.

When local egg prices went up and there was a shortage, we only purchased from State Trading Company which is a government organization which provided eggs at the lowest cost in the country. Mostly the tender evaluation part has taken time which will be expedited in future. Due to urgency, the approval for the purchase had been obtained from the relevant procurement committee and subsequently ratified by the DPC. However, the agreement will be renewed in the future.

Actions should be taken to avoid these practices in future and should take necessary actions against the responsible officers for delaying the procurement process.

3.2 Human Resources Management

Audit Issue

- (a) Without approval of the Board of directors, twenty five officers had been recruited for twenty five designations which are not in the approved cadre and the excess officers as at 31 March 2023 was fifty seven.
- (b) Authorized officer for the appointments of staff had not been identified in the Human Resources Policy Manual of the Company.
- (c) Contrary to the Section 3.2.4 and 3.2.3 of the Human Resources Policy Manual of the Company, the Airport Service & Cargo Contract executive of the SriLankan Airlines Limited had been appointed as the Procurement executive of the Company with effect from 09 May 2022.

Management Comment

These designations are within the total approved cadre which was approved by the Board of Directors. Designations, although different, are well within and appropriate for the given grade category.

Independent panel members for the interviews will be selected considering the respective position/ designation/ grade.

There is no restriction to apply for vacancies in the same/ similar grade. The selected applicant was an internal candidate. (Employee of SriLankan Airlines) and that candidate was the best candidate among the applicants.

Recommendation

Actions should be taken to rectify the shortcomings.

Actions should be taken to rectify the shortcomings.

Actions should be taken to avoid these practices in future and should take necessary actions against the responsible officers.

(d) Application had been called for the post of Management Accountant. However, the candidate obtained highest marks at the interview had been selected and appointed as Assistant Management Accountant, which is not in the approved cadre.

This position is an 8.1 Executive position. Hence, Management Capacity has not been considered.

Selected candidate was the most successful candidate at the final interview and earned the highest marks.

Actions should be taken to avoid these practices in future and should take necessary actions against the responsible officers.