

## **Litro Gas Terminal Lanka (Private) Limited - 2015**

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The audit of the financial statements of the Litro Gas Terminal Lanka (Private) Limited (“the Company”) for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of profit or 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.

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

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Board of Directors (“Board”) is responsible for the preparation and fair presentation of these 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 judgments, 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 Board, 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 Company as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) An amount of Rs.2,374,432 had remained in the capital work in progress since 1999 without being any changed. According to the records of the Company this was identified as a “packed product”. However, no evidence was made available to determine the existence of such asset. As a result, the Company’s assets had been overstated by similar amount.
- (b) An expenditure of Rs.17 million was incurred for a storage tank development project which had completed during the year 2014. However, this amount had not been included in the property, plant and equipment shown in the statement of financial position as at the end of the year under review.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operation of the Company during the year under review had resulted in a pre-tax net profit of Rs.1,282.14 million as compared with the corresponding pre-tax net profit of Rs. 864.77 million for the preceding year, thus indicating an improvement of Rs. 417.37 million in the financial results. Increase of revenue by Rs. 408.68 million during the year under review was the main reason attributed for this improvement in the financial results.

### **3.2 Analytical Financial Review**

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#### **3.2.1 Profitability**

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The main source of income of the Company is throughput fee and it was increased by 41 per cent as compared with the previous year. The Litro Gas Lanka Limited pays US \$ 51 to the Company as throughput fee for every Metric ton imported through the terminal of the Company. Hence, the sales volume of the Litro Gas Lanka Limited is directly effect to the throughput fee. In addition as the throughput fee is invoiced at US \$ value, the Rupee

devaluation during the period is also contributed towards the income. The throughput fee for the year under review and last five years is as follows.

<b>Year</b>	<b>Throughput Fee</b> Rs. million
2015	1,407.09
2014	998.40
2013	932.61
2012	930.44
2011	763.66

### 3.2.2 Significant Accounting Ratios

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According to the information made available some of the important ratios of the Company for the year 2015 and the previous year are given below.

	<b>2015</b>	<b>2014</b>
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<b>Profitability Ratios (Percentage)</b>		
Gross Profit Ratio (GP)	81	74.3
Net Profit Ratio (NP)	91.1	86.6
Return on Assets (ROA)	13.5	10.13
Return on Capital Employed (ROCE)	15.1	11.2
<b>Liquidity Ratios (Number of times)</b>		
Current Assets Ratio	15.3:1	37.8:1
Quick Assets Ratio	15.3:1	37.8:1

The following observations are made in this regard.

- (a) The gross profit ratio and net profit ratio of the Company had improved by 9.02 per cent and by 5.2 per cent respectively as compared with the previous year. In the meantime, the return on assets and return on capital employed had increased by 33.3 per cent and 34.8 per cent respectively as compared with the previous year.
- (b) The working capital of the Company had been in a strong position due to the investment of Rs. 4,311.82 million (Rs. 3,214.46 million in 2014) made in fixed deposits, Repo and saving accounts as at the end of the year under review.

## **4 Operating Review**

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### **4.1 Management Weaknesses**

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The following observations are made.

- (a) A refilling production plant of the Litro Gas Lanka Limited had been constructed in a land at Kerawalapitiya in 2010 which obtained on lease basis by the Company from the Land Reclamation Board. However, there was no sub lease agreement between the Company and the Litro Gas Lanka Limited. Further, no sub lease rental payment being made by the Litro Gas Lanka Limited to the Company to date.
- (b) The Company had entered into an agreement with the Board of Investment (BOI) on 29 March 2000. However, the management of the Company had not obtained the BOI certificate. This certificate is important to obtain tax holiday from that date. Since there is no certificate available, it is uncertain when the exemption commenced and clarity is required on the meaning of “commencement of business.”

## **5. Systems and Controls**

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Weaknesses observed in system and controls during the course of audit were brought to the notice of the Chairman of the Company. Special attention is needed in respect of weaknesses in the IT System pointed out by management letter.