

Litro Gas Lanka Limited – 2017

The audit of the financial statements of the Litro Gas Lanka Limited (“The Company”) and the financial statements of its investee (“The Company and Investee”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising 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.

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

The Board of Directors (“Board”) is responsible for the preparation of these financial statements that give a true and fair view 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

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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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

2.1 Opinion

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

2.1.1 Report on Other Legal and Regulatory Requirement

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 were 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 requirement of Section 151 of the Companies Act No.07 of 2007.

2.2 Non- compliance with Laws, Rules and Regulations, etc.

The following instances of non-compliances with Laws, Rules and Regulations etc. were observed in audit.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Public Enterprises Circular No. PED/12 dated 2 June 2003 - Guidelines for Good Governance.	
(i) Guideline 4.2.2	Monthly Performance Statement in Financial and Physical terms, Operating Statement, Cash Flow Statement, Liquidity Position and Borrowings and Statement on Human Resources including cadre positions, new recruitments had not been tabled at every monthly Board Meeting.
(ii) Guideline 4.3	Minutes of Board Meetings had not been forwarded to the Secretary to the Line Ministry within 10 days after confirmation of such meetings.
(iii) Guideline 5.1.1	The Company should prepare a corporate plan for 3

years and update it annually as a rolling plan. The copies of the plan approved by the Board together with the updated annual budget should be forwarded to the Line Ministry, Department of Public Enterprises and the Auditor General 15 days before the commencement of financial year. However, the Company had not complied with that requirement.

- (iv) Guideline 5.2.2 (a) A feasibility study had not been done for construction of filling plant in Hambanthota with the estimated cost of Rs. 716 Million before incorporation in the capital budget in the year under review.
- (v) Guideline 5.2.2 (b) Approval of the Ministry and the concurrence of the Department of Public Enterprises had not been obtained for acquiring Five motor vehicles for Rs.24 Million in year 2017.
- (vi) Guidelines 5.2.4 & 5.2.5 The draft Budget of the year 2017 which should have approved by the Board of Directors three months before the commencement of the financial year had been approved in December 2016.

Further, the copies of the approved Budget for the year under review had not been forwarded to the line Ministry, the Department of Public Enterprises and Auditor General as specified by the Guideline.
- (vii) Guideline 8.3.1 Although a sum of Rs. 15,453,607 had been spent for publicity in 2017, publicity agency had not been selected through procurement procedures.
- (viii) Guideline 8.3.8 A sum of Rs. 5,272,730 had been donated to different parties during the year 2017 without approval of the Minister of Finance and Planning.
- (ix) Guideline 8.7 According to the agreement entered on 20 April 2016 into between the Company and its National Union of Employees which represents 60 employees for the period from 2016 to 2018 on, PAYE tax should be borne by the employees first and average of the PAYE tax borne by the each employee should be paid continuously back to the employees by the Company as an allowance, which is contrary to the provisions in the Guideline.
- (x) Guideline 9.2 The Company does not have an organization Chart

registered with the Department of Public Enterprises with an approved cadre. In the event of creation of a new cadre, or instances where there is excess cadre, the Company had not taken action in consultation with the Department of Public Enterprises.

(xi) Guideline 9.3

The Company does not have Scheme of Recruitment and Promotion approved by the Board and the Ministry with the concurrence of the Department of Public Enterprises.

(b) Public Enterprises
Department Circular No.
PED 58(2) dated 01
September 2011.

It seems to be that Litro Gas Lanka Limited is falling under “F” category as per the classifications of the institutions in the Circular. Accordingly, payment of allowances and the terms and conditions of key executive officers of State Owned Enterprises under this sub – category will therefore be decided by the respective Board of Directors having regard to competitive market rates applied by similar institutions, the educational and competence level of the person concerned with the concurrence of the Hon. Minister of Finance and Planning. However, audit was not able to ensure whether the Company had obtained the concurrence of the Minister of Finance and Planning to decide the salary of the staff.

(c) Guideline 4.2.1 of the
Procurement Guidelines
– 2006

A Master Procurement Plan (MPP) at least for a three years period had not been prepared by the Company.

3 Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company and Investee for the year under review had resulted in a pre-tax net profit of Rs. 419.85 million as compared with the corresponding pre-tax net profit of Rs. 4,895.08 million for the preceding year, thus indicating a deterioration of Rs. 4,475.23 million in the financial results. While revenue had been increased by Rs.5,468,13 million or 22 per cent, cost of sales had been increased by Rs.9605.68 million or 49 per cent and it was the main reason for the deterioration of the financial result.

3.2 Analytical Financial Review

3.2.1 Important Accounting Ratios

The important accounting ratios of the Company for the year 2017 and preceding year are as follows,

	2017	2016
	%	%
Profitability Ratios (percentage)		
Gross Profit Margin (GP)	4	21.5
Net Profit Margin (NP)	0.86	13.98
Return on Assets (ROA)	1.05	14.73
Return on Capital Employed (ROCE)	1.24	18.75
Liquidity Ratios (No. of Terms)		
Current Ratio	3.07:1	3.48:1
Quick ratio	2.67:1	3.15:1

The gross profit margin and net profit margin of the Company were deteriorated by 17.5 per cent and 13.12 per cent respectively as compared with preceding year. Similarly, liquidity ratios had been decreased when compared to previous year. Further, Return on Asset (ROA) and Return of Capital Employed (ROCE) was decreased by 13.68 per cent and 17.51 per cent respectively as compared with preceding year. Profitability and liquidity position of the Company were deteriorated in the year under review as compared to previous year.

4 Operating Review

4.1 Management Activities

- (a) The Company had paid Rs. 15.5 million as Ports and Airports Development Levy (PAL) for importation of LP Gas in the month of June 2013 and the shipment was cancelled and later this amount had been recognized as a receivable. However, the Company had not taken any favourable action to recover that amount even at the end of the year under review.
- (b) As at 31 December 2017, the total container deposit receivables amounted to Rs.4.9 million of which Rs. 4.55 million related for the period from 2006 to 2014. However, the Company had not taken favourable actions to recover that amount for a longer period.

4.2 Idle Assets

The deed of the land called Orugodawatte had not been obtained by the name of the Company and that land had been purchased at a price of Rs. 13 Million in 1986 by Colombo Gas Company, the former administration Company. However, it had not been used by the Company since its purchase.

4.3 Transactions in Contentious Nature

As per the resolution passed by Board of the company on 30 October 2016, 04 Ministry Coordinators nominated by the Ministry of Public Enterprises had been appointed with 04 vehicles to liaise between the Ministry and the Company on the new projects and expansion plans. Even though amount aggregating to Rs.3,600,000 had been paid as remuneration for those coordinators and amount of Rs.1,041,197 had been incurred as fuel and maintenance expenses by the Company, details of such projects and expansion plans were not received to the audit to ensure the coordinating activities.

4.4 Utilization of Motor Vehicles

Two motor vehicles had been assigned to the Chairman who serves to the Company on part time basis.

4.5 Market Share

LP Gas sector is growing continuously and Litro Gas Lanka Limited is the market leader. As stated by the Company, 72 per cent of LPG requirement of local market was supplied by the Company during the year 2017. Sales volume of the Company had gradually been increased during the year under review and preceding 3 years.

5 Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every public institution should act in compliance with the United Nations Sustainable Development Agenda by the year 2030. With respect to the year under review, Litro Gas Lanka Limited was aware as to how to take measures relating to the activities under purview of their scope. The following observations are made in this regard.

- (a) Although actions had been taken to identify the Sustainable Development Goals such as affordable and clean energy, no poverty, good health and wellbeing and life on land, the Company had not identified targets relating to goals along with the milestones in respect of achieving such targets and indicators for evaluating the achievement of such targets clearly.
- (b) Department of Project Management and Monitoring could be identified as being interested in the functions of the Company in achieving the Sustainable Development Goals; however, due to failure of the institution in identifying them, it was further observed that their participation was not taken place when setting targets for the institution.
- (c) Even though the existence of accurate statistical data is compulsory for evaluating the performance of a certain activity, a methodology to establish a data base to evaluate the achievements of above goals was not available in the Company.
- (d) Financial provision required to achieve Sustainable Development Goals had not been included in the Annual Budget.
- (e) Due to lack of coordination with other institutions in the preparation of achieving the sustainable development goals, it was observed that the preparation of plans for achieving the targeted goals, and the preparation process had fallen into a decline, or remained weak.

6 Accountability and Good Governance

6.1 Internal Audit

Internal audits provide a number of important services to the management of any organization. These include detecting and preventing fraud, testing internal control, and monitoring compliance with organization policy and government regulation. Therefore, internal audit function provides a vital step in the development of the organization. The following observations are made about the internal audit function of the Company.

- (a) Although the Internal Auditor is directly responsible to the Board of the Company, according to the organization chart available with audit, the Internal Auditor is directly responsible to the Managing Director of the Company.
- (b) An internal audit procedure or manual had not been introduced by the Company.
- (c) The approval of the Board to the internal audit plan for the year 2017 had not been obtained and no proper risk assessment had been made as to cover all the risk areas by the Internal Audit Division.
- (d) The observations and recommendations of the internal audit had not regularly been evaluated and reported to the Board of Directors of the Company.
- (e) According to the information available with the audit, it was restricted to do internal audit activities on staff salary.
- (f) Only 3 officers including Chief Internal Auditor had been assigned to Internal Audit Division.

6.2 Audit Committee

As per the provisions of the Public Enterprises Circular No. PED/12 dated 02 June 2003 and PED/55 dated 14 December 2010, an Audit Committee had not been established by the Company.

6.3 Procurement and Contract Process

The following observations are made in relation to the LP Gas procurement – 2017/2018.

- (a) Even though the term contract for the year 2016/2017 was ended in June 2017, the Company was not able to select a supplier and enter into an agreement for the procurement of LP Gas until July 2017 and the existing agreement was extended for another period of three months. Consequently, the Company had to incur an additional cost of over Rs. 67 million for 46,674

MT of LP Gas imported in July and August in year 2017, when compared to the rate of freight and insurance of the term contract of 2017/2018 which commenced in October 2017.

- (b) As per the Procurement Guideline 6.3.6 of Procurement Guidelines - 2006, proper minutes of participation for bid opening had not been kept in prescribed format and such minutes had not been maintained properly. Although reasons for lack of success of aggrieved bidders shall be summarized as per the Procurement Guideline 8.8, the Company had not acted accordingly.
- (c) The law governing the contract and arbitration law mentioned in bid security of the selected bidder is contrary to the Guideline 5.5.1 and 5.4.14 (a) of Procurement Guidelines - 2006.
- (d) As stated in the bidding documents, pre-supply experience was one of the main evaluation criteria for bid evaluation. However, only 2 bidders had pre-supply experience of LP Gas to the Company since 2010. As a result, only those two bidders out of 13 bidders had been qualified for supply of LP Gas for the year 2017/2018 as well. Therefore, forming of evaluation criteria as to qualifying only 2 bidders is not clear to the audit.
- (e) According to the information made available with the audit, Two LP Gas Suppliers had been blacklisted with the approval of the Board of Directors of the Company in 2016. However, the Company had failed to publish the names of defaulting suppliers in the website of Public Finance Department as per the requirement of Guideline 8.11.1 of the Procurement Guidelines – 2006. Further, after removing from the blacklist those two suppliers had applied for above procurement and one of them was the lowest bidder. However, that lowest bidder had been rejected by the Technical Evaluation Committee on the basis of reasons for blacklisting two years ago and that decision to reject the lowest bidder even after removing from the blacklist is not transparent.

In response to above observations, the Managing Director of the Company stated as follows.

“As per the clauses 1.1 and 1.2 of the Procurement Guidelines, it is with regards to the procurement action financed in whole or in part by GOSL. The procurements is financed by LGLL which is a Company incorporated under the Companies Act of Sri Lanka as amended. Even though the Board of Directors had adapted a transparent procurement policy, since 2015, with the participation of Standard Cabinet Appointed Procurement Committee (SCAP), Technical Evaluation Committee appointed by Department of Public Finance, this was not an obligation. Further, the Fort Magistrate Court by Order dated 27 November 2017 had specifically defined that the funds of Litro Gas Lanka Ltd. cannot be classified as Public Property.

7 Systems and Controls

Weaknesses observed in systems and controls during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

	Areas of Control -----	Observation -----
a)	Assets Management	Assets of the Company had not been utilized at optimum level.
b)	Human Resources Management	A Scheme of Recruitment and Promotion had not been developed.
c)	Procurement Management	Non Compliance with Government Procurement Guidelines - 2006