Polipto Lanka (Private) Ltd. – 2017/2018

The audit of financial statements of the Polipto Lanka (Private) Limited for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018, and the income statement, 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. My observations on the performance of the Company of the year under review, which I consider should be tabled in Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear, in this report.

1.2 Responsibility of the Board of Directors for the Financial Statements

The Board of Directors 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 of Directors 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 conducting the audit in accordance with Sri Lanka Auditing Standards.

1.4 Basis for disclaimer of opinion

(a) Going Concern of the Company

According to the template framework for the preparation of financial statements in assessing whether going concern assumption is appropriate, the parties responsible for the preparation of financial statements should consider such matters as wide range of factors on current and expected performance, inform the institutional unit restructuring, capability of occurring events related thereto, revenue estimates or government funding, ability to continue as a going concern, potential resources of replacement of financing etc.

Even though, the financial statements of the Polipto Lanka (Pvt) Ltd. for the year ended 31 March 2018 had been prepared on the basis of going concern assumption, it was observed in audit that the going concern was uncertain on the following matters.

(i) Facts stated under Note 30 in the financial statements of the Company for the year ended 31 March 2018.

(ii) The Company had manufactured 88,700 liters of burnt oil, comprising 69,630 liters up to 31 March 2017 and 19,070 liters since that date to 30 June 2017 and only 46,841 liters of burnt oil had been sold at Rs.40 per liter due to non-availability of a market, for selling those products.

(iii) As the production process could not be continued and unable to attain the anticipated production targets, every production unit had sustained a loss of Rs.310.

(iv) Even though, a sum of Rs.263.5 million had been granted to the project by the Treasury as at 31 March 2018, the income generated by the project as at that date amounted to only Rs.1,892,540. The loss incurred by the Company for the year ended 31 March 2018 amounted to Rs.22,392,638 whereas the accumulated loss as at that amounted to Rs.156,613,667. Further, it was observed that the current liabilities of the Company as at 31 March 2018 had exceeded its current assets by Rs.6,393,548.

(v) The Chairman of the Company had resigned on 23 May 2017 but a new Chairman had not been appointed again even by 31 August 2018.

(vi) The Chief Executive Officer of the company, including 4 staff officers had resigned but no one had been appointed to those posts again.

(vii) At the meeting of the Cabinet of Ministers met on 15 May 2018, the approval had been granted for the following issues in respect of the restructure of the Polipto Lanka (Pvt) Company.

- By signing the operating agreement subject to the Attorney General's clearance, restructure the existing Polipto Lanka (Pvt) Ltd., enabling to hand over the ownership of operation of the Polipto factory to the Innovator and the patient holder who owns 30 per cent of the share capital.

- If the manufacturer of the Polipto Lanka (Pvt) Ltd. intends to operate only current production activities, the Government should provide him a concessionary period of 10 years to repay the total value of assets amounting to Rs.82,019,500 in terms of the valuation given by the Department of Valuation. As recommended by the Scholarly Committee in its paragraph, the operations of the Polipto Lanka (Pvt) Ltd. should be handed over to the above mentioned innovator to act accordingly.

- Even after the repayment of the total value of assets stated in the above paragraph to the Government, the innovator should be instructed to pay 10 per cent of the profit earned by him annually to the Government continuously.

- To direct the Board of Investments to take action to transfer the Lease of the land, 11 acres in extent which now belongs to the Polipto Lanka (Pvt) Ltd. to the innovator since the date of signing the agreement between the Government and the Innovator, rent of the land with 11 acres should be paid by him from the date of signing the agreement.

- To empower the Secretary to the Ministry of Petroleum Resources Development to pursue the future restructuring process and to consider invalid the present Board of Directors.

- Since the completion of this restructuring process, direction to the Secretary to the Ministry of Finance and Mass Media to allocate a sum of Rs.1 million required for the payment of salaries and wages of the employees available at present in the Polipto Lanka (Pvt) Ltd. and to release a sum of Rs.8.5 million for the settlement of bills relating to the functions performed before by the Polipto Lanka (Pvt) Ltd.

- If the proposed restructuring of the Polipto Lanka (Pvt) Ltd. mentioned above is not fulfilled, the assets of this factory be liquidated and to transfer the liquidated value to the Consolidated Fund.

(b) Sri Lanka Accounting Standards

(i) In terms of paragraph 9 of the Sri Lanka Accounting Standard 02, stock should be measured at cost or net realizable value whichever is lower. However, 41,062 liters of Polipto oil which was the closing stock of the Company as at 31 March 2018, the net realizable value of which amounted to Rs.1,642,480 had been brought to accounts based on its cost amounting to Rs.2,354,588 and as such the current assets as at the last date of the year had been overstated by Rs.712,108 whereas the loss for the year had been understated by that amount in the financial statements.

(ii) In terms of paragraph 51 of the Sri Lanka Accounting Standard 16, on property, plant and equipment, the residual value and the useful life of an asset had not been reviewed at least at each financial year end as such 27 items costing Rs.3,188,978 had been fully depreciated but still in use. Accordingly, action had not been taken to revise the estimated error in accordance with Sri Lank Accounting Standard 08.

(iii) In terms of paragraph 104 of the Sri Lanka Accounting Standard 38 the amortization period and the amortization method for intangible assets with a finite useful life should be reviewed at least at each financial year end. However, a computer software valued at Rs.284,864 which had been fully amortized but still in use as action had not been taken accordingly. But, action had not taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.

(c) Accounting Deficiencies

According to the depreciation policy of the Company is to depreciate 4 items of assets costing Rs.5,753,141 shown under the other property, plant and equipment at 10 per cent annually amounting to Rs.575,313, but 20 per cent or Rs.1,150,627 had been depreciated in the year under review. As a result, the net loss for the year ended

31 March 2018 and the value of non-current assets as at that dated had been overstated and understated by Rs.575,313 each respectively.

(d) Lack of Evidence for audit

The following observations are made.

(i) A sum of Rs.173,649,984 had been shown in the statement of financial position as at 31 March 2018 as loans granted by the Government and sufficient evidence to ensure it could not be obtained from the company.

(ii) A sum of Rs.992,540 had been shown in the statement of financial position as grants received from the Ministry but the relevant schedule was not presented along with the financial accounts.

2. Financial Statements

2.1 Disclaimer of opinion

Because of the matters described in paragraph 1.4 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.1.1 Report on other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No.07 of 2007, I state the following matters.

(a) The basis of opinion, scope and limitations of the audit are as stated above.

(b) Subject to the significant limitations stated in the basis for disclaimer of opinion paragraph in this report;

- All the information and explanations required for the audit were received and according to my observations, the company was maintained proper accounting records.

- The financial statements of the company comply with the requirements of section 151 of the companies Act No.07 of 2007.

(c) The Company had not taken action in terms of provisions in Section 220 of the companies Act.

2.2 Non-compliance with laws, rules, regulations and management decisions

The following non-compliances with laws, rules and regulations were observed.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Companies Act No.07 of 2007	
(i) Section 167	The Board of Directors of every company, within 6 months of the balance sheet date should prepare an annual report on the affairs of the company and a copy of the annual report should be sent to every shareholder of the company not less than fifteen working days before the dated fixed for holding the annual general meeting of shareholders. Nevertheless, an annual report for the year ended 31 March 2017 had not been prepared by the Company.
(ii) Section 220(1)	The stated capital of the Company amounted to Rs.187,500,000 whereas the values of net assets as at 31 March 2015/2016, 2016/2017 and 2017/2018 amounted to Rs.90,889,142, Rs.53,278,971 and Rs.30,886,333 respectively. If at any time it appears to a director of a company that the net assets of the company are less than half of its stated capital, the Board should within 20 working days of that fact becoming known to the Director, call an extra ordinary general meeting of shareholders of the company and to be held not later than 40 working days from that date of calling of such meeting. Nevertheless, the company had not taken action accordingly.
(b) Section 16 of the Employees Trust Fund Board Act No.46 of 1980.	The employer of every employee to whom this act shall apply in respect of each month during which such employee is employed by such employer, be liable to pay in respect of such employee to the Fund on or before the last day of the succeeding month, a contribution of an amount equal to 3 per cent of the total earnings of such employee from his employment under such employer during the month. However, the

		contribution for 4 months period from February 2017 to May 2017 had not been paid as at the specific date by this company.
(c)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 156(7) and 780	As the officers who deal with payments had not paid due attention to the need for economy and efficiency being planned prudently, a total sum of Rs.15,960, comprising sums of Rs.12,394 and Rs.3,566 in 2 instances had been paid as surcharges to the Employees Trust Fund and Employees Provident Fund respectively.
(d)	Section 4.1 of the Joint Venture agreement entered into between the Central Environmental Authority and the patentee of the generation of electricity by discarded plastic waste on 19 February 2009 and Article 3.1(i) of the Articles of Association of the Polipto Lanka (Pvt) Ltd.	Even though, the stated capital of the company consists of 18,750,000 ordinary shares of Rs.10 per share, only 10 shares thereof had been issued as at 31 March 2018.
(e)	Public Enterprises Circular No.95 of 14 June 1994.	Only the benefits specifically approved by the Treasury can be paid to its employees with the approval of the Board of Directors of the entity and additional allowances, incentives or any other financial benefits could not be paid without getting the necessary authority. On the contrary, a sum of Rs.873,361 for 16 officers as various allowances and a total sum of Rs.374,719 as acting allowances to the Acting Deputy General Manager (Finance) to act as the Internal Auditor had been paid during the year under review, in terms of Board of Management decision No.99.
(f)	Public Enterprises Circular No.PED/2/2015 of 25 May 2015	It was observed that a sum of Rs.25,041 had been paid for the year under review for the provision of communication facilities to 06 officers who were not entitled for communication facilities.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the year under review had resulted in a net loss of Rs.22,392,638 as compared with the net loss of Rs.35,174,148 for the preceding year, thus indicating an improvement of financial result by Rs.12,781,510 of the year under review as compared with that of the preceding year. Even though, the sales income of the year under review had decreased by Rs.1,313,260 and the other income of Rs.57,467 in the previous year had deprived of in the year under review, decrease of cost of sales, operating expenses and financial expenses by Rs.3,456,993, Rs.10,691,569 and Rs.3,675 respectively had mainly attributed to the above improvement.

In analysing financial results of the year under review and the preceding 3 years, the net loss for the year 2014/2015 amounting to Rs.15,613,789 had deteriorated up to net losses of Rs.24,918,651 and Rs.35,174,148 in the years 2015/2016 and 2016/2017 respectively and it had been increased up to net loss of Rs.22,392,638 in the year 2017/2018. After being readjusted the employees remuneration and depreciation on non-current assets to the financial result, the contribution of the Company had been net losses of the Rs.9,760,637, Rs.14,523,826 and Rs.19,668,621 and Rs.10,384,796 in the years 2014/2015, 2015/2016, 2016/2017 and the year under review respectively.

4. Operating Review

4.1 Performance

4.1.1 Operations and Review

According to the action plan of the Ministry of Petroleum Resources Development for the year 2017, the objectives of the Company include, minimise haphazard disposal of waste plastic to the environment by converting waste plastic into fuel, minimize the cost incurred to import petroleum products and save foreign exchange thereby, recognizing an inventor by giving a commercial value of his invention, as an evaluation of an inventors intellectual property rights being converted it into a national asset and also introduce this new model to the younger generation to get them more involved in innovative thinking and inventions, create self-employment opportunities as waste plastic collectors, in addition to the direct employment opportunities created by the factory which produces fuel, conduct further research and development studies on the possibility of producing other ancillary products and on improving the fuel produced through the plastic fuel conversion process to be used as an economical fuel for three-wheelers and expanding and marketing this technological superior invention in the global arena.

The following observations are made in the achievement of objectives of the Company.

As stated in the Auditor General’s report in the previous year as well, due to such reasons as non-conducting a cost benefit analysis in the implementation of project for production of fuel by plastic waste, non-identification of a market for products, non- preparation and implementation of plans in order to preclude problems and interruptions being identified in the implementation of pilot project as a semi-commercial project, non-availability of required infrastructure facilities adequately, non-receipts of funds on due time and the production management in the execution of project had been at a very weak level etc., it was observed in audit that this had become a very unsatisfactory project being not reached the objectives of the project.

(i) As the cost benefit had not been correctly identified by the feasibility study stage in respect of the project for converting waste plastic into fuel, the cost of production per litre amounted to Rs.350 through the selling price per litre was only Rs.40.

(ii) Even though, it was identified that burnt oil manufactured could be used only as a combustive fuel for boilers, attention had not been paid about the severe competition in the fuel market, use of substitute fuel, existence of a competitive price of substitute fuel (kerosene oil) and as such sale of manufactured burnt oil had been utter failed. Therefor, 46,841 litres of burnt oil, out of 88,700 litres manufactured by the Company had been sold at Rs.40 per litre to a private entity by a special Board pepper of the Board of Directors.

(iii) According to the results attained from the pilot project, it was decided that the process of converting waste plastic into fuel had been technologically, environmentally and economically successful and as such it was planned to create semi-commercial terminus, 10 times larger than the existing capacity and implement it but necessary plan had not been prepared and implemented by identifying obstructions and problems that would arise in the implementation of the project.

(iv) It had not been pre-planned to provide required infrastructure facilities for the terminus, even after converted it into a semi-commercial terminus.

(v) In the execution of this project, there was no specific methodology to insert plastic into the system at the beginning and about 5 methods had been tested from the pilot project up to now. At present, plastic are inserted into the system by mixing with used oil and in this process, used oil had been added to the system as inputs in high quantity than the quantity of burnt oil produced.

The Company had produced 88,700 litres of burnt oil up to 31 March 2018 from the inception of the Company and during this period, 95,200 litres of used oil had been used as direct and indirect inputs with plastics. Accordingly, 1.07 litres of used oil had been used as inputs for manufacture of one litre of burnt oil.

(vi) The Polipto Lanka (PVT) Ltd. had stores 3494 kilograms of plastic powder mixed up with sands which could not be used for production purposes as at 31 March 2018, 17,350 litres of liquid waste disposed of through the production process and 2000 kilograms solid waste in tanks and containers in the premises of the company due to unavailability of a beneficial method to dispose of them to the environment. Moreover, a proper procedure had not been identified by the Company for the disposal of this waste in an environmentally friendly and legal manner.

4.2 Transactions of contentious nature

The Polipto Lanka (Pvt) Ltd., which was established under the Central Environmental Authority on 19 August 2009 with the objective of minimizing the environmental disaster occurred due to plastic disposed of in a haphazard manner, through the conversion of waste plastic into fuel had been under the purview of the Ministry of Power and Energy and the Ministry of Technology and Research from 04 October 2010 and 06 February 2013 respectively. It had been under the purview of the Ministry of Petroleum Resources Development from 21 September 2015 even up to the end of the year under review. Further, it was observed that due to transfer functions of the Company between various Ministries, the performance of the company had been adversely affected.

4.3 Personnel Administration

Action had not been taken to get the cadre of the Company and the scheme of Recruitments approved by the Department of Management Services.

5. Accountability and Good Governance

5.1 Maintenance of Books of Accounts

The cash book in terms of Financial Regulation 234(2) on Form Gen. 58 and the subsidiary books and ledger accounts for the year under review had not been properly maintained.

5.2 Presentation of Financial Statements

In terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the closure of the year of accounts. However, the financial statements of the company had been presented on 21 August 2018 with a delay of 81 days.

5.3 Action Plan

In terms of paragraph 05(2) of the Public Finance circular No.01/2014 of 17 February 2014, an action plan, including commercial activities intended to be implemented in the ensuing financial year based on the Business Plan should be prepared. Nevertheless, the action plan had not been prepared in a manner, including the Human Resources Development Plan and the loan repayment plan.

5.4 Internal Audit

An internal audit plan of the Company and an internal audit programme for the year under review had not been prepared and as such a sufficient internal audit had not been carried out. However, a sum of Rs.150,000 had been paid as acting allowances to the Acting Internal Auditor during the year under review. This allowance had not been approved by the Treasury and it had been indicated in the previous year audit report as well.

5.5 Audit and Management Committee

In terms of Section 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Audit and Management Committee meetings should be held once in 3 months, but the audit and management committee meetings had not been held during the year under review.

6. Systems and Controls

Weaknesses in systems and controls observed in 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 systems and control	Observations
(a) Control of registers	Source documents and day books not properly maintained.
(b) Accounting	Non-compliance with certain Sri Lanka Accounting Standards.
(c) Control of payments	Payments made without being obtained relevant approvals in terms of circular instructions.
(d) Assets Management	Register of fixed assets not properly maintained and existence of under -utilized assets.
(e) Human Resource Management	Non-availability of an approved cadre.