

Polipto Lanka Private Limited - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Ploipto Lanka Private Limited (“Company”) for the 06 months ended 30 September 2018 comprising the statement of financial position as at 30 September 2018 and the Statement of income , statement of changes in equity and cash flow statement for the 06 months 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 the Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Company as at 30 September 2018, and of its financial performance and its cash flows for the period of 06 months then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in the paragraphs 1.5 of this report.

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 qualified 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 intends 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 Auditor's Responsibility for the Audit of Financial Statements

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 scepticism 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 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non - compliance with reference to the Standard	Management Comment	Recommendation
<p>(a) According to the paragraph 9 of the Sri Lanka Accounting Standard 02, “stocks”, Even though stock should be valued at the lower of the cost or net realizable value, 22,800 liters of polipto oil at the net realizable value of Rs. 798,000 which had been included in the year end stock of the Company had been taken into accounts valued based on its cost of Rs. 1,310,588. As a result, the value of current assets as at 30 September 2018 had been overstated by Rs. 512,588 and the loss for the said period had been understated by the same amount.</p>	<p>Quotations were called for selling the stock of fuel before handing over to the new inventor. Although a customer presented to buy the entire stock at Rs. 35 per liter, a part of the said stock was deposited as it could not be removed. Accordingly 22,800 liters could not be removed. The production cost of the said stock was Rs. 1,310,588. Considering such situation, Rs. 35 was not considered as the net realizable value and the stock was valued at the production cost.</p>	<p>Stocks should be valued according to the standard.</p>
<p>(b) Although 53 items of non-current assets at the cost of Rs. 3,988,565 had been fully depreciated, they were in use. Nevertheless, actions had not been taken to review the useful life</p>	<p>Actions will be taken to consider this matter in the accounting process of restructure of the</p>	<p>Actions should be taken to review the useful life time of the assets and to make adjustments as per</p>

time of assets and to make necessary adjustments as per the paragraph 51 of the Sri Lanka Accounting Standard 16. Company and to the Standard. adjust in the accounts under a proper methodology.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
-----	-----	-----
According to the depreciation policy of the Company, 07 items of assets at the cost of Rs. 885,843 which were taken under the accessories and equipment should be depreciated by 10 per cent of the cost or Rs. 44,292 annually. However it had been depreciated by 20 per cent or Rs. 88,582 by mistake. Accordingly, the net loss for the period ended 30 September 2018 had been overstated by Rs. 44,290 and the value of non-current assets as at that date had been understated by the same amount in the financial statements.	The said error was occurred due to calculation of depreciation on annual base. Calculation of depreciation only for 6 months was missed due to delay.	Provision for depreciation should be made as per the depreciation policy of the Company.

1.6 Restructure of the Company

Audit Issue	Management Comment	Recommendation
-----	-----	-----
(a) A motor vehicle at the zero net value as at 30 September 2018, which the market value was Rs. 1,250,000 had been transferred to the new inventor by the letter of the Secretary to the Ministry of Petroleum Resources development dated 27 September 2018. It was observed that the value of the said asset had not been included in the estimated value of Rs. 82,019, 500 relating to 16 items of fixed assets which was covered by the agreement of operation and maintenance activities. It was further observed that it had not been entered into a sub agreement in	It was informed by the Government Valuer that motor vehicles were not valued by them. Hence this vehicle was assessed by the Sri Lanka Automobile Associates. According to the instructions of the letter of the Secretary to the Ministry of Petroleum Resources development No. MPRD/ADM/12/4/5 dated 27 September 2018; this vehicle also was transferred to the new inventor with the	It should be entered in to agreements as to be covered the value of all assets transferred to the new inventor.

connection with this transfer.

relevant assessment report on 30. 09. 2018.

- (b) In addition to the fixed assets mentioned above, stock of consumables at the cost of Rs. 1,606,824 and a stock of spare parts of the pilot project at the cost of Rs. 2,163,178 as at 30 September 2018 had been transferred to the new inventor. It was observed that the value of the said stock amounting to Rs. 3,770,002 had not been included in the value of Rs. 82,019,500 which should be recovered by the new inventor.
- According to the instructions of the letter of the Secretary to the Ministry of Petroleum Resources development No. MPRD/ADM/12/4/5 dated 27 September 2018, all raw materials, finished stocks Stationary stocks and files remained in the Company premises were handed over to the new inventor in writing. It should be entered in to agreements as to be covered the value of all assets transferred to the new inventor

1.7 Non - compliance with Laws ,Rules, Regulations and Management decisions etc.

Reference to Laws, Rules Regulations etc.	Non - compliance	Management comment	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 156 (7) and 780	Although payments should be planned with a proper vision and actions should be taken efficiently and economically by the officers who connected with payments, a sum of Rs. 80,505 had to be paid as fines including Rs. 79,115 to the Board of Investment of Sri Lanka due to failure of paying lease rent relating to the period of 01 January	Payment of lease rent and the contribution to the Employees Trust Fund were delayed due to the delay of receiving provisions from the Treasury. Hence this delay charge had to be paid	Actions should be taken as per the Financial Regulations.

to 30 September 2018 on due date and Rs. 1,390 to the Employees Trust Fund due to the contribution not being credited properly.

(ii) Financial Regulation 395	Although a bank reconciliation statement should be prepared all institution which maintains a bank account in connection with the transactions as at the end of each month, before 15 of the following month bank reconciliations had not been prepared for August and September relating to the period ended 6 months from April 2018 to 30 September 2018.	There were no transactions in August and September 2018. Therefore separate bank reconciliation statements had not been prepared.	Actions should be taken as per the Financial regulations.
-------------------------------	--	---	---

2. Financial Review

2.1 Financial Result

The operational result of the Company for the 6 months period ended 30 September 2018 was a loss of Rs. 10,025, 887 and the corresponding loss for the previous year was Rs. 22,392,638.