

Litro Gas Lanka Limited - 2018

1.1 Opinion

The audit of the financial statements of the Litro Gas Lanka Limited for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 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 report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, 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 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 Accounts Receivable

Audit Issue	Management Comment	Recommendation
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(i) The Company had paid Rs. 15.5 million and Rs.15.1 million as Ports and Airports Development Levy at the importation of LP Gas in 2013 and 2018 respectively for the cancelled shipments. However, the Company had not taken favourable actions to recover.	The company has lodged the issue to the Sri Lanka Customs to recover the said balance.	Immediate actions should be taken to recover the outstanding.
(ii) Total container deposit receivables as at 31 December 2018 was Rs. 4.9 million. Out of that a sum of Rs. 4.55 million related for the period from 2006 to 2014. However, the Company had not taken favourable actions to recover such outstanding balance.	Company was able to recover some part of the amount in the year 2018 and the recovery mechanism is still on going.	Immediate actions should be taken to recover the outstanding.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
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(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,	Monthly financial statements referred in section 4.2.2. of PED/ 12 of 02 June 2003, is	All the evidences to be kept to confirm any submissions/

	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.	being submitted to the Board on a monthly basis.	presentations to the Board.
(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.	The related minutes of board meetings have been presented to the secretary of the line ministry from the year 2019 onwards.	The Company should be adhere to the provisions in the guideline.
(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.	Said reports for the year 2019 have been approved by the board on 14th December 2018 and forwarded to the line Ministry, Department of Public Enterprises, General Treasury and the Auditor General on 17th January 2019.	The Company should be adhere to the provisions in the guideline.
(iv) Guidelines 5.2.1	Budget should include budgeted capital expenditure together with the action plan. However, such an action plan was not	Even though the action plan was not included in the budget 2018, we have prepared the action plan for the procurement plan for	The Company should be adhere to the provisions in the guideline.

prepared by the the year 2019 and
 Company for the year forwarded to the line
 2018. Ministry, Department
 of Public Enterprises,
 General Treasury and
 the Auditor General.

- (v) Guideline 5.2.2 (b) Before incurring capital expenditure exceeds Rs.10 million, approval of the appropriate Ministry and the concurrence of the Department of Public Enterprises should be obtained. However, the Company had not complied with the provision.
- We are adhering to the procedures of procurement including the capital expenditure which is recommended under the 19th amendment to the constitution of Sri Lanka. Thus, the approvals to the capital expenditure under the category have been obtained from respective committee as appropriate.
- The Company should be adhere to the provisions in the guideline.
- (vi) Guideline 9.2 The Company does not have an organization Chart registered with the Department of Public Enterprises with an approved cadre.
- There had been no practice for HR to get staff carder approval from the ministry as such all new staff carder expenses/budget allocation was included in the company's annual budget with the approval of the board of management as per the company's Articles of Association.
- The Company should be adhere to the provisions in the guideline.
- (vii) Guideline 9.3 The Company does not have a Scheme of Recruitment and Promotion approved by the Board and the Ministry with the concurrence of the Department of Public Enterprise.
- All staff promotions have been recommended by the line supervisors/functional heads based on the performance management scheme and approved by the Managing Director. There had been no
- The Company should be adhere to the provisions in the guideline.

practice for HR to get approval from the ministry. However, all such expenses/budget allocation was included in the company's annual budget with the approval of the board of management as per the company's Articles of Association.

(viii) Guideline 9.7 Salaries and allowances should be based on approved schemes of recruitments and promotions and no revision would be permitted without the approval of the Secretary to the Treasury. But, the Company had not complied with such provision.

All staff salaries and allowance schemes approved by the Chairman/ Managing Director. There had been no practice for HR to get approval from the ministry. However, all such expenses/budget allocation was included in the company's annual budget with the approval of the board of management as per the company's Articles of Association.

The Company should be adhere to the provisions in the guideline.

(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

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The Company should be adhere to the provisions in the guideline.

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.

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| (c) Section 41 (I) of the National Audit Act No.19 of 2018 | Even though, it was iterated by the previous audit reports, Audit and Management Committee had not been established up to date by the Company. | Please note that we have complied with Laws, Rules & Regulations and proper action had been taken to establish an Audit Committee for LGLL in terms of section 7.4.1 of PED 12 dated 02.06.2003. | The Company should be adhere to the provisions in the guidelines and treasury circulars. |
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2. Financial Review

2.1 Financial Result

The operating result of the year under review was amounted to a profit of Rs. 391,443,422 and the corresponding profit in the preceding year was amounted to Rs. 260,391,456. Therefore an improvement amounting to Rs. 131,051,966 of the financial result was observed. The reasons for the improvement are increase of the revenue of the Company by 28 per cent and increase of the profit share of the investee by 1694 per cent.

2.2 Ratio Analysis

According to the information received to the audit, important accounting ratios of the Company for the year 2018 and preceding year are as follows,

	2018	2017
Profitability Ratios (Percentage)		
Gross Profit Margin (GP)	6.38	4.00
Net Profit Margin (NP)	1.01	0.86
Return on Assets (ROA)	1.53	1.05
Return on Capital Employed	2.39	1.96

Liquidity Ratios (No. of Terms)

Current Ratio	3.51	3.1
Quick Ratio	3.14	2.70

Gross profit margin and Net profit margin of the Company were increased by 2.38 per cent and 0.15 per cent respectively as compared with preceding year. Further, Return on Asset (ROA) and Return of Capital Employed (ROCE) were increased by 0.48 per cent and 0.43 percent as compared with preceding year. The reason for the increase is mainly due to the increase of revenue. Current ratio and Quick ratio were decreased by 0.44 when compared to previous year.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
(a) The Company had incurred over Rs. 52.42 million as emoluments for the individuals recruited by the Company during the period from 2015 to 2018 on contract basis which comprise 38 Business Development Coordinators, 03 Business Analysts, 03 Consultants, 08 Ministry Coordinators. The following observations are made in this regard,	The business coordinators has added value to the Company and evidence of work done made available to the auditors during the audit.	
(i) The Company had not obtained the approval of Secretary to the Treasury in terms of 9.10 of the Public Enterprise Circular No. PED/12 dated 02 June 2003 for above recruitments and nevertheless the approval of the Board had not been obtained for 10 of above recruitments. In response to above observations,	No Comment	The Company should be adhere to the guidelines issued by authorities.

the Managing Director of the Company stated as follows,

“It has to be noted that the board of Directors of LGLL are the nominees of the Secretary to the Treasury who exercise both apparent and austensiable authority of the Secretary to the Treasury in its day today affairs of LGLL”. And “It must be stated that in the procedure practiced currently all service contracts are not presented to the Board”.

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| (ii) A proper recruitment procedure and basis had not been followed to select these individuals for above positions. At least the basic qualifications and experiences had not been evaluated to check the ability to work as Business Development Coordinators. Some individuals had not given working experiences in the relevant field and some had recruited only based on the request of then Minister of Finance. | It must be said that at the outset that the aforesaid personnel were not employees of the company, they were independent contractors who were paid for particular task as identified in the contract and for a specific period as stipulated in their respective contracts. Hence your observation as per 1.9 (b) does not arise. However it must be said that the particular tasks involved is more of a practical nature that needs the visibility among a crowd and the willingness to go the public places and distribute the leaflets, gather data and carryout any such act that is ancillary or connected thereto. In fact paragraph 3 in contracts specifies these persons are independent employees and shall not constitute as an employee, partner, agent of, or joint venture with LGLL. | Proper recruitment procedure and basis should be applied for recruitments with the approvals of relevant authorities. |
| (iii) The scope of works of some appointees had not been given clearly and defined by the Company. | The Ministry of Finance was the line Ministry from Jan 2015 to September 2015 and the Ministry directive was to release the analyst to report to the Ministry | The Company should be adhere to the provisions in the guidelines (Guideline 9.4 of |

of Finance as the current work place. It is our belief and understanding that they worked closely with the line Ministry pertaining to the Business Development and the analysis of the performance of LGLL. Public Enterprises Circular No. PED/12 of 02 June 2003)

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| (iv) Although work had been assigned to Business Development Coordinators through a service contract, acceptable work done report had not been submitted to the Company and proper evaluation had not been done before payments. | Please be kind enough to note that what we have entered into are not service contracts but they are "independent contracts" for services rendered. The work done reports have been reviewed and payment has been made after receipt of report. | The Company should keep sufficient evidences to ensure whether intended purposes had been achieved. |
| (v) The Company had appointed 03 Consultants. However, a proper evaluation of requirements had not been done before the appointments. Further, those had been reported to the Ministry. | No Comment | The Company should adhere to the provisions in the guideline. |
| (vi) Eight (08) Ministry Coordinators had been appointed to liaise between Ministry of Public Enterprise Development and the Company on new projects and the expansion plans and, four vehicles had been assigned them at the cost over Rs.1.5 million for the maintenance of those vehicles. However, information regarding projects where coordinated by them were not made available to the audit. | These coordinators were paid on the confirmation of attendance by the MPED ministry secretary. The details of work done should be available with the ministry. | The Company should take legal actions against the officers who have not perform their duty them and recover any payments. |

3.2 Management Inefficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
The Company had made payment for travelling allowance to provide the finance assistance for research on archaeology and charity activities from 2016 to 2018. The Company had	According to the request, since he has to travel throughout the country the board decided to support his travelling expenses on	The Company should ensure whether funds had been utilized for the intended use and establish a procedure to get the

made payment for one party for a a monthly basis. same activity as CSR activity. Further, it was observed that the activity report of the relevant party had not been consistent with the request.

approval from relevant authority before making payments.

3.3 Idle or underutilized Property, Plant and Equipment

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
Land called Orugodawatte had been purchased at a price of Rs. 13 Million in 1986 by the Colombo Gas Company, the former administration Company. However, deed of the land had not been got transferred under the Litro Gas Lanka Ltd and further such land had not been used by the Company since the date of purchased.	No Comment	The Company should take immediate actions to get transferred the title of land to the Company.

3.4 Procurement Management

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
Without following the Government Procurement Guideline, the Company had been purchased 5,996 Cylinders (12 Kg) in the year 2015 from a Private party for Rs. 18,233,819 are still in idling. Further, it was observed that, Ministry of Public Enterprise Development had requested not to issue cylinders to the market until an inquiry on several irregularities arisen on tender procedure is completed.	This tender was done in 2016 according to the company procurement guideline and due to the cylinders delivered was not approved by SLSI. As such this tender was terminated. The cylinders currently in the yard are being refurbished as applicable to safety standards to release to the market. The delay was due to an investigation in to this tender which comment by the line ministry of the Public Enterprises Development. A provision has been made in the accounts.	Immediate actions should be taken to resolve the issue.