Litro Gas Terminal Lanka (Pvt) Ltd - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Litro Gas Terminal Lanka (Pvt) Ltd 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, except for the effects of the matters described in paragraph 1.5 of this report, 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 Qualified Opinion

My opinion is qualified on the matters described in paragraph 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 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 Financial Statements

1.5.1 Advances

Audit Issue	Management Comment	Recommendation
According to the Circular Resolution No.04 of 2014 passed by the Board on 08 August 2014, Rs.100 million interest free advance had been transferred to Sri Lanka Investment Holdings Ltd (SLIHL) for the purpose of segregation of Sri Lanka Insurance Corporation Limited as per the Regulation of Insurance Industry (Amendment) Act, No 3 of 2011. This amount should be repaid by cash or by way of a dividend settlement on or before 31 August 2015 by SLIHL. At the incorporating SLIHL, then Chairman and Managing Director of the Company had been identified as the initial shareholders having one ordinary share for each on the understanding that the said two initial shares will be transferred to the Secretary to the Treasury as soon as, practically, possible. However, this advance had not been repaid by SLIHL up to date and there was not an agreement entered between Company and SLIHL about the settlement of such advance. Further, According to the records of Registrar of Companies, total two shares of the SLIHL had not been transferred yet to the General Treasury and belong to two individuals. Therefore, the	Even though the Rs 100 million has not been settled by the Sri Lanka Insurance Holding Ltd, they have confirmed their liability through their balance and have agreed to pay the above amount by their recent correspondence. Further recoverability of the above amount is more secure, since the debtor company is currently managed by the Sri Lanka Insurance Corporation, the parent company of the Company.	The Company should take immediate actions to recover the advance.

recoverability of the advance and existence of such assets belong to the company is critically doubt.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Public Enterprises Circular No. PED/12 of 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.	Monthly financial statements referred in section 4.2.2. of PED/12 of 02 June 2003, is being submitted to the Board on a monthly basis.	All the evidences to be kept to confirm any submissions/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 adhere to provisions in the 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	Said reports for the year 2019 have been approved by the board on 23 rd November 2019 and forwarded to the line Ministry, Department of	The Company should adhere the provisions in the guideline.

		forwarded to the line Ministry, Department of Public Enterprises, General Treasury and the Auditor General 15 days before the commencement of financial year. However, the company had not complied with the requirement.	public Enterprises, General Treasury and the Auditor General on 17 th January 2019.	
(iv)	Guideline 5.2.1	Budget should include budgeted capital expenditure together with the action plan. However, such an action plan was not prepared by the Company for the year 2018.	Even though the action plan was not included in the budget 2018, we have prepared the action plan for the procurement plan for the year 2019 and forwarded to line Ministry, Department of Public Enterprises, General Treasury and the Auditor General.	The Company should adhere to the provisions in the guideline.
(v)	Guideline 5.2.2 (b)	Before incurring Capital expenditure exceeds Rs.10 million, the 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 requirement.	We are adhering to the procedures of procurement including the capital expenditure which is recommended under the l9th 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 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	There had been no practice for HR to get staff carder approval from the	The Company should adhere to the provisions in the guideline.

		Enterprises, General Treasury with an approved cadre.	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.	
(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, General Treasury.	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 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 adhere to the provisions in the guideline.
(viii)	Guideline 9.7	Salaries and allowances should be based on approved schemes of recruitments and promotions and no revision would be permitted without	All staff salaries and allowance schemes approved by the Chairman/ Managing Director. There had been no	The Company should adhere to the provisions in the guideline.

		the approval of the Secretary to the Treasury. However, the Company had not complied with the requirement.	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.	
(b)	Public Enterprises Department Circular No. PED 58(2) dated 01 September 2011	It seems to be that LGTLL 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.	No Comment	The Company should adhere to the provisions in the guideline.
(c)	Section 41 (I) of the National	Even though, it was iterated by the previous audit	Please note that we have complied with	The Company should adhere to

Audit Act No.19 of 2018.	reports, Audit and Management Committee had not been established up to date by the Company.	Laws, Rules & Regulations and proper action had been taken to establish an Audit Committee for LGTLL in terms of section 7.4.1 of PED 12 dated 02.06.2003.	the provisions in the guidelines and treasury circulars.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 1,538,654,595 and the corresponding profit in the preceding year amounted to Rs. 1,240,696,341. Therefore an improvement amounting to Rs. 297,958,254 of the financial result was observed. The main reason for the improvement is the increase of average output and finance income of the Company.

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)	83.98	82.75
Net Profit Margin (NP)	75.53	67.63
Return on Assets (ROA)	13.38	12.76
Return on Capital Employed	15.82	14.62
Liquidity Ratios (No. of Terms)		
Current Ratio	5.10	33.47
Quick Ratio	5.09	33.46

Gross profit margin and Net profit margin of the Company were increased by 1.23 per cent and 7.9 per cent respectively as compared with preceding year. Further, Return on Asset (ROA) and Return of Capital Employed (ROCE) were increased by 0.62 per cent and 1.2 percent as compared with preceding year. The reason for the increase is mainly due to the increase of output and the finance income. Liquidity ratios were decreased by 28.37 when compared to previous year. The reason for this is the increase of current liability by 805.77 per cent due to the dividend payable at the end of the year.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
The Company had recruited 04 individuals as ministry coordinators to liaise between the Ministry of Public Enterprise Development and the Company on the new projects and the expansion plans bearing the cost of over Rs. 900,000 during the period from 2015 to 2018. However, any project was not observed which coordinated by them during such period.	No Comment	The Company should take legal actions against the officers who have not performed their duty and recover any payments.

3.2 Defects in Contract Administration

	Audit Issue	Management Comment	Recommendation
(i)	According to the information is made available with audit, US$ 51 per MT had been charged as throughput fee from Litro Gas Lanka Limited (LGLL) for the use of storage tanks, pipelines and pumping stations. However, basis of fixing the rate of throughput fee was not clear in audit. Further, the Company had not entered for an agreement with sole customer, LGLL, by fixing any terms and conditions of the business.	The agreement signed for throughput between Shell Terminal Lanka (pvt) Ltd (31 st October 2001) has been made available to the auditors.	The Company should update the existing agreement with the LGLL.
(ii)	The Company had not entered into agreements for some outsource services of contracts including labours and staff transports.	The agreement is available for the security service. The both LGLL and LGTLL are covered through the one agreement.	The Company should enter into written agreements for the outsource service contracts.