

Litro Gas Terminal Lanka Limited - 2022

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Litro Gas Terminal Lanka Limited for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 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 accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022 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 Standard, 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 Auditor's Responsibilities for the Audit of the Financial Statements (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 skepticism 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non Compliance with Sri Lanka Accounting standards

Audit Issue	Management Comment	Recommendation
(a) According to the section 51 of LKAS- 16, The residual value and the useful life of an assets shall be reviewed at least each financial year end and, if expectations differ from previous estimates, the changes shall be accounted for as a change in an accounting estimate in accordance with LKAS -8. However, Fully depreciated assets which are being used by the Company amounted to Rs.8.56 million had not been reviewed accordingly.	Management comment had not been provided	Should be complied with the accounting standards.
(b) The PPE capitalization policy hadn't been disclosed in financial statements as at 31 December 2022.	Management comment had not been provided.	Accounting policies should be disclosed in the financial statements.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulations 507(2).	Actual existence of every fixed asset should be verified on 31 of December, and its condition noted. But the Company had not conducted any asset verification or Board of Survey as at 31 December 2022.	The company conducted a special fixed assets verification in June 2022 based on the request made by SLIC. As such the company did not conduct the assets verification as at 31st December 2022	Should be complied with the Financial Regulations.
(b) Department of Public Enterprises Circular No: PED 01/2015 dated 25 May 2015, No: 01/2015(ii) dated 14 January 2022 and No: PED 01/2020 dated 27 January 2020.	As per the provisions of the circulars, one official vehicle and fuel allowance equivalent to 135 and 115 liters per month or a monthly fuel allowance of Rs.50,000 is entitled to an officer of HM 1-1 category or above in any SOE or above post holding officer approved by the Department of Management Services. However contrary to the circulars,	The allowances specified in this circular will not apply to Litro Gas Terminal Lanka Limited as it falls under the category of a subsidiary. The payments of allowances to the chairman, CEO, Board of directors shall be decided by the respective board having regarded the competitive market rates. Accordingly and in terms of the articles of association of the company instead of PED 01/2015 followed the car policy approved by the board comprising of a representative of Public Enterprise Department.	Should be complied with the Public Enterprises Circulars as instructed by the Parent Company.
	(i) Official vehicles or monthly allowance totaling to Rs.5.7 million had been paid to 11 officers who are not entitled to the official vehicle.		
	(ii) The Company had provided a monthly vehicle allowance ranging from Rs.143,000 to Rs.300,300 and monthly fuel allowance ranging from 200 liters to 320 liters for six employees.		

- | | | | |
|---|---|---|--|
| <p>(c) Public Enterprises Circular No: PED 01/2015 dated 25 May 2015 and No: PED 01/2020 dated 27 January 2020.</p> | <p>(i) If an officer holds more than one post, that person entitled to draw only the fuel allowance prescribed for his substantive post. However, the former Chairman/CEO who have held the Chairman/CEO position of both companies had obtained a Monthly vehicle allowance of Rs.443,300 from the Company up to May 2022 in addition to the allowance obtained from Litro Gas Lanka limited. Also this amount exceeded the monthly allowances limit of Rs.50,000 allowed by the Circular. Monthly fuel allowance of 500 liters which is exceeding the 150 liters as per the Circular had been provided to the former Chairman/CEO.</p> <p>(ii) Monthly driver allowance of Rs.50,000 and monthly entertainment allowance of Rs.150,000 had been paid to the former chairman/ CEO of the Company up to May 2022.</p> <p>(iii) Although Non- Executive Director (NED) is only entitled to the sitting allowance, monthly vehicle allowance of Rs.100,000 had been paid to three NEDs.</p> | <p>Payments of allowances and providing transport facilities to Chairman, Executive and Non-Executive Directors and observers are approved by the board of directors as per the memorandum and articles of association item no 83, 76, 77 and 78.</p> | <p>Should be complied with the Public Enterprises Circulars as instructed by the Parent Company.</p> |
| <p>(d) Department of Public Enterprises circular No. PED 09/2022 Dated 21</p> | <p>Commercial Corporations, Statutory Boards and Government Owned Companies which have earned profits during the financial year 2021</p> | <p>Annual performance based bonus of Non CBA employees are determining on the basis of relative individual performance and</p> | <p>The company should adhere to the instructions of the Circular. If any deviations</p> |

December 2022.	and paid incentives can propose a bonus amounting to Rs.20,000 per employee. However the company had paid a bonus amounting Rs.60,000 per employee during the year under review.	the performance of the company. The number of months of bonus payment should be in line with the CBA employee's payment. Also the applicability and adoptability of the PED circulars are decided by the board of directors of the company.	required, the approval of the General Treasury Should be obtained.
(e) Circular Resolution No.04 of 2014 passed by the Board on 08 August 2014.	According to the Resolution 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 General 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 in settlement of such advance. Further, according to the records of Registrar of	This had been discussed in the COPE meeting held on 20/5/2022 and the CEO of SLIC has confirmed that SLIC is in the process of liquidation and after completion of the liquidation process the amount will be transferred to SLIC.	The Company should take necessary action to recover the dues from the SLIHL.

Companies, total two shares of the SLIHL had not been transferred yet to the General Treasury.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit Rs.1159.6 million and the corresponding profit in the preceding year amounted to Rs.1200.8 million. Therefore, a decline amounting to Rs.41.2 million of the financial result was observed. The reasons for the decline are decrease of revenue from contracts with customers by Rs.172 million and increase of administrative expenses by Rs.96 million for the year under review.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the proceeding two (02) years with the percentage of increase or decrease are as follows.

For the year ended 31December	Amount Rs. Million			Percentage of change		
	2022	2021	2020	% 2022	% 2021	% 2020
Revenue from contracts with customers	1,444	1,616	1,508	-10.6	7	-27
Cost of sales	319	316	327	1	-3	4
Finance income	520	304	517	71	-41	-26
Finance expenses	17	28	83	-38.5	-66	-38

2.3 Ratio Analysis

Key ratios compared with the preceding (02) years are as follows

Year	2022	2021	2020
Ratio			
Profitability Ratio			
Net Profit Ratio	80%	76.04%	95.19%
Liquidity Ratio			
Current ratio	1.14	4.81	13.15
Quick Ratio	1.13	4.8	13.12
Gearing Ratio			
Return on Capital Employed (ROCE)	9.6%	9.6%	12.27%
Return on Equity	4.7%	8.99%	9.61%
Debt to Equity ratio	0.13	0.11	0.14

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
The Company had entered into a Lease Agreement on 20 November 2013 with Sri Lanka Ports Authority for the purpose of operation of import, storage, handling and delivery of LPG at Hambanthota Operational Centre for a 10-year period and later it had been renewed with Hambanthota International Port Group (Pvt) Ltd on 08 December 2017. Aggregating lease rental for 8 years amounting to Rs.668.55 million (Including tax) had been paid and aggregating lease rental for remaining two years amounting to Rs.233.84 million (Excluding tax) to be paid as at 31 December 2022. It was observed that only 6 shipments with aggregating quantity of 10,075 MT, LPG had been arrived to the	Litro Gas Terminal Lanka limited had been requested to suspend only the discharge of LPG through the damaged pipeline, but not the operation of the rest of the storage facility, where we had some LPG stocks. Therefore, we had a contractual obligation to maintain the integrity of assets and ensure the safety of the facility, until an amicable solution was reached to the pipeline repair/replacement. Therefore, we had to maintain minimum staff to carry out the routine maintenance/statutory inspection to ensure the safety and security of the	The Company should take necessary action to utilize this property for the intended purpose of the Company to serve the general public.

Hambanthota port from 20 November 2013 to 31 December 2021. Therefore, the said facility having storage capacity of 2,700 MT had not been fully utilized by the Company analysing the cost benefit advantages even a significant amount is paid as lease rentals.

However, The operation of Terminal has been suspended from 11 February 2021 due to the leakage in the pipelines. Accordingly, the operations of the terminal had been stopped, and same staff had been retained at the terminal incurring Rs.12.9 million for salaries for the year under review.

facility during 2022, while having negotiation with HIPG in line with the legal advice and directions. The highlighted expenses were attributed to the above requirements during the year 2022.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
<p>The Board of Directors had approved to establish a new product category named “Litro Oxygen” and to purchase/long lease for 50 years approximately 22 acres land and building in Kerawalapitiya immediately from Sri Lanka Land Development Corporation by LGTLL on the government valuation paying Rs.500 million as advance and utilize this land to construct the oxygen filling station and/or to utilize as an additional LPG operations and storage expansion project or any other related activities at the the meeting held on 24 May 2021. Accordingly, Rs.500 million had been paid on 31 May 2021 as an advance payment for the land. However, the approval for constructing the oxygen filling station at the said land had not been obtained from the Board and future plan for utilization of the said land have not been decided. Further Sri Lanka Land Development Corporation had informed the chairman on 03 January 2023 to pay</p>	<p>Company has requested the intervention of the Ministry of Finance to support the Company to delay the payment at least by 4 years until the economic situation of the Company is stable to pay the balance amount and LGTLL has informed SLLDC that the allocation of the same land to any third party is in contrary to the Cabinet Memorandum and the Cabinet of Ministers decision dated 27/5/2022. Company had informed SLLDC that the Company is not in a position to settle the full payment at once as per the proposal by SLLDC .and has submitted a Counter proposal to the total payment in monthly instalments within a period of 24 months with an interest negotiated by both parties. Currently we are under negotiation to finalize the payment plan that is agreeable by both parties to lease the</p>	<p>The Company shall use this property for the intended purpose or any other suitable purpose with the approval of the relevant authorities.</p>

the total lease premium within a period of 01 months and if not that land will be allocated for another investment. However, the company had not paid the above lease premium with in the period.

3.3 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) The procurement activities expected for a period of at least 3 years had not been listed in the procurement plan, and master procurement plan had not been regularly updated within a period not exceeding 6 months, As stated in guideline 4.2.1 (b) and (e) of the government procurement guidelines.	Management comment had not been provided	Should be complied with the procurement guidelines.
(b) According to Guideline 4.2.2 (a) of the Government Procurement Guidelines, a Procurement Time Schedule should be prepared chronological order describing the steps of each procurement action from the time of commencement of procurement to completion. However the Company had not prepared accordingly.	Management comment had not been provided.	- Do -

4. Accountability and Good Governance

4.1 Internal Audit

Audit Issue	Management Comment	Recommendation
According to the F.R.134(1), the internal audit unit should be independent of the control of those who are responsible for or are actually carrying out the financial and accounting operation and Section 4.4 of the Guideline on Corporate Governance for State Owned Enterprises issued on 16 November 2021 by the Department of Public Enterprises Circular No. 01/2021, the Internal Auditor should maintain his/her objectivity and independence in the discharge of his/her duties. However, the Internal Audit Department check and endorse all vouchers except salary related vouchers, Purchase	To ensure that the process is compliant, it is important to thoroughly check and endorse all the necessary documents before concluding the process. This helps to ensure that all requirements and regulations have been met and that the process has been executed in accordance with company policies. In order to maintain this level of compliance, the company continues to review specific areas of their operations through internal audits.	The internal audit unit should independent of the financial and accounting operations.

orders and Investment schedules. This has initiated by Internal Circulars Issued by the Chairman on 27th July 2021 and 25th April 2022. These duties challenge the independence of auditors.

4.2 Audit Committee

Audit Issue

According to the paragraph 41(1) of the National Audit Act No. 19 of 2018, and Guideline 4.2 of the Guidelines on Corporate Governance for State Owned Enterprises, there shall be Audit and Management Committee. Further, according to the Guideline 4.2(h.), the Audit Committee should meet at least once in three months. However, only one audit committee meeting was held for Litro Terminal Lanka limited for the year 2022.

Management Comment

Due to the high frequency of changes to the board of directors during the year 2022 and the crisis issues faced by the company the stipulated Audit Committee Meetings were not held. However, three meetings had been held for LGLL and one meeting held for LGTLL during the year 2022.

Recommendation

Should be complied with the relevant Acts and Guidelines.

4.3

Audit Issue

The Chairman nominated by the Line Ministry had been appointed by the Board of the Sri Lanka Insurance Corporation and he had also been appointed by the Board as the Chief Executive Officer in the year 2022. According to guideline 2.2.2 of guidelines on Corporate Governance for state owned enterprises, the Chairman is the head of the Board of Directors and according to Chapter 2.5.1, the responsibility of the CEO is to prepare strategic, tactical and operational plans. Having the same person holding both these positions are against good governance practices.

Management Comment

In terms of the Best Practices there is no bar for Chairman and CEO to be the same individual. Mr. M S G Peiris was appointed as a Board Member and Chairman by the Secretary to the Ministry by letter dated 13/06/2022. The two Board Members at the time appointed Mr. M S G Peiris as a Board Member and Chairman at the meeting held on 16/06/2022. At the same meeting Mr. M S G Peiris was appointed as CEO of LGTLL. At the time of the said appointment the country faced a severe shortage of LPG and the entire operations had come to a standstill. Due to the said reason and for cost effectiveness Mr. M S G Peiris was appointed as Chairman and CEO of LGTLL. The appointment of Mr. M S G Peiris as Chairman and CEO will be highlighted in the Annual Report appropriately.

Recommendation

Good Governance practices should be applied by the Company.