

Litro Gas Lanka Limited - 2022

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Litro Gas Lanka Limited (“the Company”) 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/ Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Company ;
- Whether the Company/ Corporation 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
<p>According to the Section 51 of LKAS - 16, the residual value and the useful life of an asset 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.1.9 billion had not been reviewed accordingly.</p>	<p>Out of the total Rs.1.9 billion, Rs. 1.8 billion represent the cylinder assets which has been exceed the expected life time. By nature of the cylinder rotation process, it is impractical to identify real lifetime.</p> <p>However, the company normal scrapping process had been recognized only the part of the expired cylinder batches. Due to the difficulty of identifying the existence of the balance part of the cylinder it has been recognized under the fully depreciated assets but in use.</p>	<p>Should be complied with the accounting standards.</p>

1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
<p>The capitalizing policy of Property Plant and Equipment of the Company is to record all the fixed assets purchases initially in the Capital WIP account and capitalize those assets after every three months. This policy had not been disclosed in the financial statements.</p>	<p>Required disclosures will be made to the financial statements from year 2023 Onwards.</p>	<p>Relevant accounting policies should be disclosed in the financial statements.</p>

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Clearing chargers relating to purchasing of cylinders amounted to Rs. 14.4 million had not been capitalized under relevant asset and that amount had been shown under capital work in progress - cylinders account from year 2018.	Clearing Chargers invoices are sent after several months by the agent. Company is in the process of rectifying the balance.	Necessary action should be taken to capitalize the direct expenses.

1.6 Accounts Receivable and Advances

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Ports and Airport Development Levy (PAL) receivable as at 31 December 2022 was Rs.50.6 million including Rs.15.5 million, 29.8 million and 3.2 million as Ports and Airport Development Levy Payments at the importation of LP Gas in 2013, 2019 and 2021 respectively for the cancelled shipments. However, the Company had not recovered those balances yet and any provision had not been made in the financial statements.	Company has taken the necessary action to recover the said balances by lodging the claims to the relevant authorities.	Necessary action should be taken to recover the balances and make adjustments in the financial statements.
(b) Total container deposit receivable as at 31 December 2022 amounted to Rs. 4.6 million and remained unrecovered for more than 8 years.	Company is in the process of recovering the container deposit receivable.	Necessary action should be taken to recover outstanding balances.

1.6.2 Advances

Audit Issue	Management Comment	Recommendation
An advance payment of Rs.20.3 million had been made for purchasing of oxygen cylinders from Smart Gas Pvt Ltd in 2021 without obtaining a guarantee. Subsequently, this purchase order had been cancelled by the Company and the supplier had not accepted the cancellation of the order. Therefore, the recoverability of the advance is doubtful and provision for impairment however relevant disclosures had not been made in the financial statements.	There is an ongoing legal case on the above matter and will take appropriate remedies after finalizing the legal matter.	Necessary action should be taken to recover the balance.

1.7 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 01/2015 dated 25 May 2015 and No: 01/2015(ii) dated 14 January 2022 and No: PED 01/2020 dated 27 January 2020.	<p>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.</p> <p>(i) Official vehicles or monthly allowance had been granted to the officers who are not entitled to the official vehicle.</p> <p>(ii) The Company had provided a monthly vehicle allowance ranging from Rs.143, 000 to Rs. 371,800 and monthly fuel allowance ranging from 150 liters to 600 liters for employees who are eligible for official vehicle.</p>	<p>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.</p>	<p>Should be complied with Public Enterprises Circulars.</p>
(b) Public Enterprises Circular No : PED 01/2015 dated 25 May 2015 and No: PED 01/2020 dated 27 January 2020.	<p>(i) Monthly fuel allowance of 500 liters which is exceeding the 150 liters as per the Circular had been provided to the former Chairman/CEO up to May 2022.</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>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 79 and 110.</p>	<p>-Do-</p>

(iii) Although Non-Executive Director is only entitled to the sitting allowance, monthly vehicle allowance of Rs. 100,000 had been paid to three Non- Executive Directors.

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| <p>(c) Public Enterprises Circular No. PED 09/2022 dated 21 December 2022.</p> | <p>Although Commercial Corporations, Statutory Boards and Government Owned Companies which have earned profits during the financial year 2021 and paid incentives can propose a bonus. The Company had proposed and paid a bonus amounting to Rs.49.4 million during the year under review having recorded a financial loss for the year.</p> | <p>Annual performance based bonuses recommended by the Remuneration Committee and Board of Directors and board approval was granted subject to the price revision being granted and based on the outcome of the staff appraisals conducted.</p> <p>The board decided to pay performance-based bonuses only if the pricing formula is implemented. Based on the above decision performance-based bonuses were paid in September 2022, after the price formula was implemented and the company started making profits.</p> | <p>-Do-</p> |
| <p>(d) Public Enterprises Circular No. PED 02/2015 dated 25 May 2015.</p> | <p>The cost of purchasing the necessary equipment and accessories required for obtaining residential telephone, private mobile phones or internet facilities should be personally borne by the officers. The expenses for such equipment should not be reimbursed by the respective enterprises. However, the Company had incurred Rs. 1,615,000 during the year under review on such expenses.</p> | <p>Also, all these facilities are granted based on the official requirement for the employees to perform their duties to achieve the target and objectives of the company.</p> | <p>-Do-</p> |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.904.5 million and the corresponding loss in the preceding year amounted to Rs.7, 377.7 million. Therefore an improvement amounting to Rs. 8,282.2 million of the financial result was observed. The reason for the improvement is increase of Revenue from contracts with customers due to significant increase in selling price of LP gas during 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 preceding two (02) years with the percentage of increase or decrease are as follows.

For the year ended 31 December	Amount (Rs. million)			Percentage of Change %		
	2022	2021	2020	2022	2021	2020
Revenue from contracts with customers	79,982	52,309	39,715	53	32	(9)
Cost of sales	72,225	59,554	37,392	21	59	2
Finance income	820	276	679	197	(59)	(23)
Finance expenses	4,274	575	291	643	97	740
Selling and distribution Expenses	33	139	170	(77)	(18)	(22)
Administrative Expenses	3,277	2,572	2,542	27	1	(17)

2.3 Ratio Analysis

Key ratios of the Company for the year under review compared with preceding two (02) years are as follows.

Year	2022	2021	2020
Profitability Ratio			
Net profit/ (loss) Ratio (%)	1.13	(14.10)	0.21
Return on Capital Employed (ROCE) (%)	20.37	(42.03)	4.45
Return on Equity (%)	8.22	(73.20)	2.23
Liquidity Ratio			
Current Ratio (No of times)	4.2	1.36	3.25
Quick Ratio (No of times)	2.93	1.03	2.87
Gearing Ratio			
Debt to Equity Ratio	1.62	2.01	0.87

3. Operational Review

3.1 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) Master Procurement Plan and Procurement Time Schedule had not been prepared as stated in guidelines 4.2.1 (b) and 4.2.2 (a) of the Government Procurement Guidelines.	Management comment had not been provided.	Should be complied with the Procurement Guidelines.
(b) As mentioned in the procurement plan, the contract with the selected gas supplier for the year 2022-2023 was planned to be finalized by 25 February 2022, however due to the failure of the Company to act according to the plan, the procurement activities were not completed before the financial crisis of the country. As a result, the contract couldn't offer under the general terms and the Company lost the opportunity to buy at the price of the selected bidder and had to buy at the emergency purchase price.	The procurement process had been delayed due to the establishment of subcommittee combining Litro and Laugfs and changing of LPG Specifications.	Action should be taken to implement procurement activities as planned.
(c) The Company had ordered the LP gas without a proper cash flow estimate or confirmation of funding. As a result of this, Litro Gas Company had to pay Rs. 210 million as demurrages for the period from 22 October 2021 to 18 March 2022.	During the said period, the charges pertaining to the demurrage was due to the for ex crisis in the Country that affected all imports and industries at the time. In fact, the banks refused to honor the Letters of Credit that caused vessels to hold on to Cargo without discharging thus causing demurrage and other cost.	Action should be taken to evaluate the availability of funds before placing orders.

(d) The USD 120 million had been given to Litro Gas Company for the purchase of gas under the Indian Credit Line Facility. This loan was unable to be utilized due to delay of the Company's procurement procedure. For this reason, the management of the Company had failed to utilize the alternative solution that was available to solve the gas shortage in the country.

Litro Gas Lanka Limited (LGLL) had invited bids from the interested Indian companies based on the Cabinet approval received on 2nd May 2022.

Credit facilities should be utilized in an efficient manner.

4. Accountability and Good Governance

4.1 Appointments to the Board

Audit Issue	Management Comment	Recommendation
<p>The chairman nominated by the line ministry had been appointed by Board of the Sri Lanka Insurance Corporation and he had also been appointed by the board as the Chief Executive Officer in 2022. According to guideline 2.2.2 of Guidelines on Corporate Governance for State Owned Enterprises dated 16 November 2021, the Chairman is the head of the Board of Directors and according to guideline 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.</p>	<p>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 June 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 June 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.</p>	<p>Good Governance practices should be applied by the Company.</p>