

Litro Gas Lanka Limited - 2019

1.1 Opinion

The audit of the financial statements of the Litro Gas Lanka Limited for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 2019, 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, Rs.15.1 million and Rs. 29.8 million as Ports and Airports Development Levy at the importation of LP Gas in 2013, 2018 and 2019 respectively for the cancelled shipments. However, the Company had failed to recover such outstanding balances yet. | The Company has taken actions to recover these amounts and Department of Customs has principally agreed to refund Rs. 15.1 million. | Immediate actions should be taken to recover the outstanding. |
| (ii) Total container deposit receivables as at 31 December 2019 was Rs. 5.2 million. Out of that a sum of Rs. 4.55 million related for the period from 2006 to 2014. Even, it has iterated in previous year audit report, the Company failed to recover such outstanding balance yet. | No Comment | Immediate actions should be taken to recover the outstanding. |

1.6 Non-Compliance with Laws, Rules, Regulations and Management Decision 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) Guidelines 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 2019. | The budget which was handed over to the audit on 17 January 2019 included the capital expenditure budget. | The Company should adhere to the provisions in the guideline. |

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| (ii) Guidelines 8.3.2 (b) | A bonus amount of Rs. 2,269,737 had been paid to Chairman contrary to the provision during the year under review. | - | The Company should adhere to the provisions in the guideline. |
| (iii) 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 adhere to the provisions in the guideline. |
| (iv) 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 as per the Company's Articles of Association. 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. |
| (v) 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. However, the Company had not complied with the | All staff salaries and allowance schemes approved by the Chairman/Managing Director as per the Company's Article of Association. There had been no practice for HR to get approval from the ministry. However, all such | The Company should adhere to the provisions in the guideline. |

aforesaid provision. Consequently, gross salary per month of executive payroll had been established in a range of Rs.38,000 to Rs.1,000,000. 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. A letter with all details of the structure cadres and salary structure has been sent to the Department of Management Services and response has not been received. Process followed by the Company had been communicated by a letter to the audit copying to the Secretary, Ministry of Finance and Director General – Public Enterprise Development.

(b) Public Enterprises Department Circular No. PED 3/2015 dated 17 June 2015.

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| (i) Section 2.2 | Evidences were not made available to ensure whether the Company had obtained the recommendation of the Secretary to the Line Ministry and the concurrence of the Minister of Finance before decide the allowances of Chairman and Board of Directors. | Articles of Association of the Companies provides for the Board of Directors to decide upon the salaries and allowances of the employees of the Company inter- alia including the Chairman and the members of the Board of Directors. | The Company should adhere to the provisions in the guideline. |
| (ii) Section 2.9 | The Company had paid EPF and ETF on the allowances paid to Chairman contrary to the provision of the circular. | This has been approved by the board of directors as he was an executive chairman and in the permanent carder. This was also approved at the AGM. | The Company should adhere to the provisions in the guideline. |

2 Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 2,148,509,547 and the corresponding profit in the preceding year amounted to Rs. 391,443,422. Therefore an improvement amounting to Rs. 1,757,066,125 of the financial result was observed. The increase of the revenue of the Company by 10.66 per cent and decrease of the finance expense by 93.43 per cent were the main reasons for this improvement.

Ratio Analysis

According to the information received to the audit, important accounting ratios of the Company for the year 2019 and preceding year as follows,

| | 2019 | 2018 |
|--|-------------|-------------|
| | ----- | ----- |
| Profitability Ratios (Percentage) | | |
| Gross Profit Margin (GP) | 15.19 | 6.38 |
| Net Profit Margin (NP) | 4.99 | 1.01 |
| Return on Assets (ROA) | 7.16 | 1.53 |
| Return on Capital Employed (ROCE) | 25.70 | 2.39 |
| Liquidity Ratio (No. of Terms) | | |
| Current Ratio | 4.16 | 3.51 |
| Quick Ratio | 3.67 | 3.14 |

Gross profit margin and Net profit margin of the Company were increased by 8.81 per cent and 3.98 per cent respectively as compared with preceding year. Further, Return on Asset (ROA) and Return of Capital Employed (ROCE) were increased by 5.63 per cent and 23.31 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 0.65 and 0.53 when compared to previous year.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue

A project for granting LPG pipelines and heavy duty gas Stove at an estimated cost of Rs. 8,070,000 to 100 religious places on free of charge had been commenced as a CSR activity by the Company without a proper feasibility study. However, Installation of that equipment had been completed only for 82 religious places and 192 heavy duty gas stoves with domestic rubber hose out of 317 and 18 manifold

Management Comment

No Comment

Recommendation

Projects should be commenced with a proper feasibility study and service providers should be selected through a tender procedure.

items out of 89 were remained idle in Mabima stores for longer period. Evidences were not made

available to audit ensure whether religious places had been selected as specified by the Board and all the equipment delivered to the distributors had been promptly installed in selected religious places. Contrary to the Board Decision Service providers had not been selected through a tender procedure and it was unable to ensure whether agreements had been entered with service providers.

3.2 Idle or underutilized Property, Plant and Equipment

| Audit Issue | Management Comment | Recommendation |
|--|---|---|
| <p>Land at 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 the land had not been used by the Company since the date of purchased.</p> | <p>The division secretariat Kolonnawa has issued a letter of “right to use” and the Company is following up on the preparation of the deed.</p> | <p>The Company should take immediate actions to get transferred the title of land to the Company.</p> |