Litro Gas Terminal Lanka (Pvt) Ltd -2019

1.1 Qualified Opinion

The audit of the financial statements of the Litro Gas Terminal Lanka (Pvt) Ltd 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, 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 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 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 recoverability of the advance and existence of such assets belong to the company is critically doubt.	No Comment	The Company should take immediate actions to recover the advance.

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 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.
	(ii) Guideline 9.2	The Company does not have an organization Chart registered with the Department of Public Enterprises, General Treasury 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. However, copy of the structure had been handed over by the Company to the Department of Public Enterprise on 17 January 2019. The Company structure and other related documents have been handed over to the Department of Management service on 19 September 2019.	The Company should adhere to the provisions in the guideline.

(iii)	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 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.
(iv)	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 aforesaid provision. Consequently, gross salary per month of payroll had been established in a range of Rs.51,000 to Rs.641,000.	All staff salaries and allowance schemes approved by the Chairman/ 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. In addition annual accounts are approved at the AGM. A letter with all details of the structure cadres and salary structure has been sent to the	The Company should adhere to the provisions in the guideline.

			Department of Management Services on 19 September 2019 by the Company and response had not received yet. It had been communicated by letter dated 20 May 2020 to the Audit copying to the Secretary Ministry of Finance and Director General – Public Enterprise Development the process followed by the Company currently.	
(b	Public Enterprises Department Circular No. PED 3/2015 dated 17 June 2015.			
	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 allowance 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 Board of Directors as he was an Executive Chairman and in the permanent cadre. 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. 1,445,487,731 and the corresponding profit in the preceding year amounted to Rs. 1,538,654,595. Therefore deterioration amounting to Rs. 93,166,864 of the financial result was observed.

2.2 Ratio Analysis

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

	2019	2018
Profitability Ratios (Percentage)		
Gross Profit Margin (GP)	84.68	83.98
Net Profit Margin (NP)	70.02	75.53
Return on Assets (ROA)	11.87	13.38
Return on Capital Employed	14.81	15.82
Liquidity Ratios (No. of Terms)		
Current Ratio	14.34	5.10
Quick Ratio	14.32	5.09

Gross profit margin of the Company was increased by 0.70 per cent and Net profit margin was decreased by 5.51 per cent as compared with preceding year. Further, Return on Asset (ROA) and Return of Capital Employed (ROCE) were decreased by 1.51 per cent and 1.01 percent as compared with preceding year. The reason for the decrease is due to the loss on disposal of property, plant and equipment in preceding year. Current ratio and quick ratio were increased by 9.24 and 9.23 when compared to previous year. The current liability had been decreased by 65 per cent due to the settlement of dividend payable existed at the end of the previous year.

3. Operational Review

3.1 Defects in Contract Administration

Audit Issue	Management Comment	Recommendation
US$ 51 per MT for bulk segment and US$ 31 per MT for domestic segment had been charged as throughput fee from Litro Gas Lanka Limited (LGLL) for the use of storage tanks,	Throughput fee agreement has been signed with Litro Gas Lanka Ltd (formally Shell) for US $ 51 per metric ton and Consumer	The Company should update the existing agreement with the LGLL.

pipelines and pumping stations. However, basis of fixing the rate of throughput fee was not clear. Further, the Company had not entered into an agreement with sole customer, LGLL, by fixing any terms and conditions of the business.

Affairs Authority reduced this to US $ 31 per metric ton for which the pricing agreement available.