

Litro Gas Lanka Limited - 2015

The audit of the financial statements of the Litro Gas Lanka Limited (“the Company”) and the Company and its Equity Accounted Investee (“the Company and Investee”) for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 a summary of significant accounting policies and other explanatory information, 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

This report is issued in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgements, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Accounting Deficiencies

The financial statements of the Company include a liability of Rs.65.8 million as excise duty payable. The basis of recognizing this amount as a liability is questionable as there is a considerable amount of uncertainty with regard to existence of it. This amount relates to transactions prior to 2010 and the Company does not have any communication with tax authorities since then and there has been no demand for payment of it. Since there is a considerable amount of uncertainty with regard to the basis of recognizing this amount as a liability, the Company's liabilities could be overstated.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The company collects a deposit for each LPG cylinder sold. A component of the cylinder deposit is considered refundable while the other component is considered as non-refundable. According to the policy of the Company, the non-refundable deposit is recognized as income for the period in which the cylinder is sold, while the refundable deposit is recognized as a liability. The total refundable deposit liability recognized in the financial statements for last three years had been significantly increased year to year and as at 31 December 2015 it was Rs.5,144 million. Although a contractual liability exists, based on past experience it's quite evident that the outflow that is expected would not be the extent of the liability recognized in the financial statements.
- (b) It was observed that the amounting to Rs. 3,190,946 and Rs. 422,295 had been recognized as trade receivables and trade payables respectively since 2010 and these balances are related parties of the previous holding company. Since no communication exists between the Company and the above entity, the recoverability / settlement of these amounts are remote.
- (c) Payable accounts amounting to Rs.4.24 million and Rs.521,324 had remained unchanged since December 2014 and 2010/2011 respectively without being settled.

2.4 Related Party Transactions

The building of the Company's registered office is owned by Sri Lanka Insurance Corporation PLC (SLIC) which is the parent entity of the Company. The Company pays a monthly rental for the utilization of the above premises. The Company has subleased one floor to the Canwill Holdings (Pvt) Ltd which is functioning under the same parent company. However, there is no lease agreement between the SLIC and the Company and no sublease agreement between the Company and the Canwill Holdings (Pvt) Ltd.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Company during the year under review had resulted in a pre-tax net profit of Rs.5,342 million as compared with the corresponding pre-tax net profit of Rs. 5,434 million for the preceding year, thus indicating a deterioration of Rs. 92 million in the financial results. Decrease of revenue and increase of operating expenditure by Rs. 5,199 million and Rs. 211 million respectively as against the decrease of cost of sales by Rs. 5,017 million during the year under review were the main reasons attributed for this deterioration in the financial results.

3.2 Analytical Financial Review

3.2.1 Profitability

The following observations are made.

(a) Revenue

The revenue of the Company for the year under review had decreased by Rs.5,199 million or 18 per cent as compared with the corresponding revenue of Rs.29,084 million in the preceding year due to reduction of LPG domestic cylinder price (12.5Kg Cylinder) on three occasions during the year 2015.

(b) Cost of Sales

Contract Price of LPG had been revised downward continuously from 2012 and Average LPG market price was around USD 431 per MT in the year 2015 and it was USD 805 in the year 2014. LPG market price was down up to USD 336 in September 2015 which was the lowest LPG price for last 6 years. Therefore, the cost of sales of the Company had reduced by Rs. 5,017 million or 21 per cent as compared with the preceding year.

4 Operating Review

4.1 Management Weaknesses

The following observations are made.

- (a) Refilling production plant of the Company situated at Kerawalapitiya is operating since 2010 in a land owned by the Land Reclamation Board which leased to the Litro Gas Terminal Lanka (Private) Limited. However, there is no sub lease agreement between the Company and the Litro Gas Terminal Lanka (Private) Limited in this regard. It was further observed that no sub lease rental payment being made by the Company to the Litro Gas Terminal Lanka (Private) Limited.
- (b) Although the Company is currently constructing a fuel station in Welipenna on the land owned by the Road Development Authority and has been leased to Canowin Hotels and Spa (private) Ltd, the Company had filed to enter into a lease agreement with the Canowin Hotels and Spa (private) Ltd for the use of this land. Further, the Company is not paying a rental for the use of the property at present.
- (c) The Company had paid an amount of Rs.15.5 million as Port and Airport Development Levy (PAL) for the import of a LPG consignment during June 2013. However, the shipment had been cancelled and subsequently this amount was recognized as a receivable. Since then the Company had filed to recover this amount.
- (d) As at the reporting date the total container deposit receivables amounted to Rs.4.9 million and out of that Rs.4.55 million relating to the period 2006 to 2014. The Company had not implemented a follow up process to ensure that container deposits paid are recovered without a delay.

4.2 Market Share

LPG sector is growing continuously and Litro Gas Lanka limited is the Market leader and supplied 69 per cent of LPG requirement to the Sri Lankan market in 2015. Sales volume of the Litro Gas Lanka limited had been increased during the year 2015 and previous four years significantly. Details are given below.

Type of Cylinders	Amount in Metric tons				
	2015	2014	2013	2012	2011
2.3 Kg	9,164	8,434	7,441	6,120	4,917
5 Kg	3,742	1,433	107	-	-
12.5 Kg	157,683	122,225	116,682	114,867	113,585
37.5 Kg	19,442	17,976	17,288	16,117	15,595
Bulk	19,495	21,129	17,163	17,165	14,967
Total	209,526	171,197	158,681	154,269	149,064

5. Systems and Controls

Weaknesses observed in systems and controls during the course of audit were brought to the notice of the Chairman of the Company. Special attention is needed in respect of the following areas of control.

Areas of Control

Observations

(a) Accounts Receivable

Recovery of long outstanding balances was at very weak level.

(b) IT General Controls

Weaknesses in the IT System pointed out by the management letter should be rectified.