## Polipto Lanka (Private) Limited – 2016/2017

----------------------------------------------------------

The audit of the financial statements of the Polipto Lanka (Private) Limited for the year ended 31 March 2017 comprising the statement of financial position as at 31 March 2017 and the income statement, 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. My observations on the performance of the Company of the year under review, which I consider should be tabled in Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

### 1.2 Responsibility of the Board of Directors for the Financial Statements

---------------------------------------------------------------------------

The Board of Directors 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 of Directors 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 judgement, including the assessment of the risks of material misstatements 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 management, as well as evaluating the overall presentation of financial statements.

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

### 1.4 Basis for qualified Opinion

---------------------------------

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## 2. Financial Statements

### 2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Polipto Lanka (Private) Limited as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.1.1 Report on other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act, No.07 of 2007, I state the followings:

(a) The basis of audit opinion and the scope and limitations of the audit are as stated in this report.

(b) In my audit opinion,

- I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company,

- The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

### 2.2 Comments on Financial Statements

### 2.2.1 Going Concern of the Company

The following observations are made.

(a) According to the Note No.30 indicated in the financial statements of the Company, the production cost of burnt oil manufactured by the Company, had taken a high value. As such, the Ministry of Petroleum Resources Development had decided to restructure the Company as a remedy for continuous losses sustained by the Company. Thus it was observed the existence of the company reasonable undetermined.

(b) The Company had manufactured 88,700 litres of burnt oil comprising 69,630 litres up to 31 March 2017 and 19,070 litres from that date to 30 June 2017. However, only 39,600 litres of burnt oil had been sold at a rate of Rs.40 due to lack of a market for selling those products.

(c) Production targets could not be achieved as expected due to failure in carrying out the production process continuously and a production loss of Rs.310 had occurred by each unit in the production.

(d) Even though a sum of Rs.240 million had been granted from the Treasury to the Project as at 31 March 2017, the income earned by the Project as at that date had been only Rs.1,602,900. The loss sustained by the Company in the year ended 31 March 2017, had been Rs.35,174,148 and the accumulated loss as at that date had been Rs.134,221,029. It was further observed that current liabilities of the Company had exceeded the current assets thereof by Rs.10,545,823 as at 31 March 2017.

(e) The Chairman of the Company had resigned on 23 May 2017 and a chairman had not been reappointed even by 12 December 2017.

(f) Three officers including the Chief Executive Officer of the Staff of the Company had resigned and recruitments had not been made again therefor.

**2.2.2 Sri Lanka Accounting Standards**

The following observations are made.

(a) **Sri Lanka Accounting Standard 16**

Even though 18 Items costing Rs.962,044 had been fully depreciated as the useful life of non-current assets had not been reviewed annually in terms of paragraph 51 of the Standard, they were being further used. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.

(b) **Sri Lanka Accounting Standard 38**

Even though the amortization period and the amortization method for intangible assets with a restricted useful life shall be reviewed at least at each financial year-end in terms of paragraph 104 of the Standard, it had not been so done. As such, a computer software valued at Rs.252,944 purchased in the year 2011, had been fully amortized and eliminated from books of accounts. Nevertheless, it was being further used. Accordingly, action had not been taken to revise the estimated error.

**2.2.3 Lack of Evidence for Audit**

Even though a sum totalling Rs.150,549,984 received from the General Treasury from 31 March 2014 to 31 March 2017, had been recorded in the financial statements of the Company as a credit granted by the Government, adequate evidence for the confirmation of the said matter could not be found from the Company or the General Treasury.

**2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following non-compliances were observed.

| | Reference to Laws, Rules, Regulations etc. | Non-compliances |
|---|---|---|
| | -------------------------------- | ---------------------- |
| (a) | Section 4.1 of the Joint Venture Agreement entered into between the Central Environment Authority and the inventor who had taken a patent on production of fuel from waste plastics on 19 February 2009 and Article 3.1(1)(i) of the Articles of Association of the Polipto Lanka (Private) Limited | i. Even though the capital issued by the Company consisted of 18,750,000 normal shares at a rate of Rs.10 per share, only 10 out of those shares had been issued as at 31 March 2017.<br><br>ii. The Polipto Lanka (Private) Limited which was under the purview of the Ministry of Electricity and Renewable Energy had been vested in the Ministry of Petroleum Resources Development by the Gazette Notification dated 21 September 2015. However, the ownership of shares had not been taken over even by 31 December 2017. |
| (b) | Section 167 of the Companies Act, No.07 of 2007 | A copy of the Annual Report should be sent to every shareholder of the Company not less than 15 working days before the date fixed for holding the Annual General Meeting of shareholders. However, the Company had not prepared an Annual Report for the year ended 31 March 2016. |
| (c) | Circular No.95 of 14 June 1994 of the Department of Public Enterprises | i. Only benefits approved specifically by the Treasury can be paid to employees with the approval of the Board of Control. Contrary to that, a sum of Rs.177,668 had been paid during the year under review for 16 officers as various allowances according to the decisions of the Board of Directors.<br><br>ii. A sum of Rs.341,244 had been paid during the year under review as acting allowances for the acting Deputy General Manager (Finance) and the acting Internal Auditor. |
| (d) | Public Enterprises Circular No. PED 01/2015 of 25 May 2015 | Contrary to the referred Circular, a sum of Rs.600,400 had been paid as transport and fuel allowances in the year under review for a Deputy General Manager who is in the service on contract basis. |
| (e) | Public Enterprises Circular No. PED 02/2015 of 25 May 2015 | A sum of Rs.102,000 had been paid during the year under review by the Company for providing communication facilities to a Driver, two Establishment Assistants, a Fire Extinguisher Trainer, a Foreman, an Administrative and Production Assistant and a skilled Chemist who are not entitled to communication facilities. |

## 3. Financial Review

### 3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a net loss of Rs.35,174,148 as compared with the corresponding net loss of Rs.24,918,651 in the preceding year, thus indicating a deterioration of Rs.10,255,497 in the financial result of the year under review as compared with the preceding year. Even though an income from sales amounting to Rs.1,602,900 and other income of Rs.57,467 had been received in the year under review, increase in the cost of sales and expenditure on operations by Rs.4,098,808 and Rs.7,819,681 respectively had been the main reason for the above deterioration.

An analysis of financial results of the year under review and 02 preceding years revealed that the net loss which was Rs.15,613,789 in the year ended 31 March 2015 had increased to Rs.35,174,148 by the year under review. After adjusting employees' remuneration and depreciation for non-current assets to the financial result, the contribution of the Company which was a negative value of Rs.9,760,637 of the year 2014/2015 had become Rs.19,668,621 by the year under review.

## 4. Operating Review

### 4.1 Performance

According to the Action Plan of the Ministry of Petroleum Resources Development of the year 2016, the objectives of the Company are; minimize haphazard disposal of waste plastic to the environment by converting waste plastic into fuel, save millions of foreign exchange that we spend to import petroleum fuel, by recognizing an inventor with proper return for his invention, intellectual property rights are being converted to a national assets and also take this new model to the younger generation to get them more involved in innovative thinking and inventions, create self-employment opportunities as waste plastic collections apart from direct factory employment opportunities, conduct further research and development studies on the possibility of producing other ancillary petroleum products and on improving the fuel produced through the plastic-fuel conversion process to be used as an economical fuel for three-wheelers and expanding and marketing this technologically superior invention in the global arena.

(a) The following work indicators had been developed for the achievement of targets of this project and it had been executed as a semi commercial project. According to the work indicators of the year 2016/2017, the achievement of targets is as follows.

i. Even though the use of 660,000 kg of plastics per year for preventing the disposal of waste plastics to the environment, is the target, only 22,000 kg of plastics had been used. As such, the achievement of targets was only 3.3 per cent.

ii. Even though it had been targeted to save the foreign exchange of Rs.30 million annually through the minimization of cost on importation of petroleum products, that target had not been achieved.

(b) It was observed in considering the following matters that the objectives of the Project could not be achieved due to factors such as failure to carry out proper Cost-Benefit Analysis in the implementation of the Project on production of fuel from waste plastics, to identify the market for products, to identify obstacles and problems arisen in the implementation of the Piolet Project as a semi commercial Project and to prepare and implement plans to avoid those problems, lack of adequate infrastructure facilities, non-receipt of funds on due time and the weak management of production in the implementation of the Project.

i. Cost-Benefits had not been identified accurately in the feasibility study on the Project of converting waste plastics to fuel. As such, the sales price of a litre of fuel had been Rs.40 However, the production cost had been Rs.350.

ii. It had been identified that the burnt oil produced, can be only used as fuel for boilers. However, the selling of produced burnt oil, had been unsuccessful due to failure in considering matters such as strong competition in the market, usage of substitutional fuel and a competitive price of substitutional fuel (kerosene). Therefore, out of 88,700 litres of burnt oil produced by the Company, 39,600 litres had been sold to a private institution at a rate of Rs.40 per litre according to a special Board of Directors' Paper.

iii. According to results obtained from the Pilot Project, it had been decided to design and implement a semi commercial plant, ten times larger than the existing capacity by determining that the process of converting waste plastics to fuel is technically, environmentally and economically successful. However, it had not been implemented by identifying obstacles and issues arisen in implementing it and preparing necessary plans to prevent them.

iv. After converting to a semi commercial plant, it had not been planned to pay attention on adequate infrastructure facilities necessary therefor and obtain those facilities in advance.

v. In the implementation of this Project, there was no proper methodology to insert plastics to the system at the initiation and about 05 methodologies had been experimented from the Pilot Project up to now. At present, plastics are inserted to the system by mixing with used oil and in this process, used oil had been added to the system as inputs in high quantity than the quantity of burnt oil produced.

The Company had produced 88,700 litres of burnt oil from 31 March to 30 June 2017 and during this period, 95,200 litres of used oil had been used as direct and indirect inputs with plastics. Accordingly, 1.07 litres of used oil had been used as inputs for the production of one litre of burnt oil.

(c) The Polipto Lanka (Private) Limited had stored 3,494 kg of plastic powder mixed with sands which could not be used for production activities as at 31 March 2017, 17,350 litres of liquid waste disposed of through the production process and 2,000 kg of solid waste, in tanks and containers in the premises of the Company due to unavailability of a favourable method to dispose them to the environment. Moreover, a proper procedure had not been identified by the Company for disposal of this waste in an environmentally friendly and legal manner.

## 4.2 Transactions of Contentious Nature

-----------------------------------------------

The following observations are made.

(a) The Polipto Lanka (Private) Limited, which was established under the Central Environment Authority on 19 August 2009 with a view to minimizing the environmental disaster occurred due to plastics disposed of in a haphazard manner, through the conversion of waste plastics to fuel, was under the purview of the Ministry of Electricity and Energy and the Ministry of Technology and Research from 04 October 2010 and 06 February 2013 respectively. Moreover, it was under the purview of the Ministry of Petroleum Resources Development from 21 September 2015 to the end of the year under review. Further, it was observed that taking control of the Company by other Ministries had affected the performance of the Company.

(b) The University of Moratuwa provides the technical knowledge for the purpose of production of fuel from waste plastics which is the main objective of the Company and owns 10 per cent of stated share capital of the Company. However, it was observed that the University of Moratuwa had not become a party in the joint venture agreement entered into on 29 April 2009 relating to the establishment of this Company.

(c) According to the performance of the year under review, the achievement of production targets was at a low level of about 5.6 per cent. However, a sum of Rs.2,349,576 had been paid to 20 officers as overtime and out of that, a sum of Rs.1,854,652 had been the overtime paid to 12 persons. These overtime ranged between 35 per cent and 55 per cent of their annual basic salary.

## 4.3 Uneconomic Transactions

-----------------------------------

(a) A land of approximately 11 acres in extent had been obtained from the Board of Investment of Sri Lanka in July 2011 on 50 year lease basis at a rate of Rs.672,000 per year in a manner of revising the rent once in 03 years for the terminal of the Company, located at Horana. Even though a sum of Rs.4,379,864 had been paid as lease rental up to 31 December 2017, it was observed in audit that only a portion of this entire land less than one acre in extent, had been utilized for the relevant terminal.

(b) The average consumption of plastics per day for the production of burnt oil at the terminal located at Horana, had been 250 kg and there had been 5,546.50 kg of stock of plastics which can be used as at 07 March 2017. Even though that stock was adequate for 22 working days, 2,670 kg of plastics had been purchased at a cost of Rs.52,198 on 13 March 2017 and that stock included in the closing stock of 6,311 kg remained as at 15 September 2017. However, production activities of the terminal had been discontinued from 21 June 2017.

**4.4 Idle and Underutilized Assets**

It was observed that a Vacuum Unit valued at Rs.1,337,743 used for the Pilot Project had remained idle without being used from July 2011 on which the Company had been a semi commercial project.

**4.5 Human Resources Management**

Five posts in staff officers and 19 posts in non-staff officers had been created from the year 2009 to the year 2017 without the approval of the Department of Management Services and officers had been recruited therefor. Moreover, the remuneration paid in the year under review for 24 officers so recruited, totalled Rs.10,246,467.

**5. Accountability and Good Governance**

**5.1 Presentation of Financial Statements**

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements should be presented to Audit within 60 days after closure of the year of accounts. However, the financial statements of the Company had been presented with a delay of 137 days.

**5.2 Action Plan**

In terms of paragraph 05(2) of the Public Finance Circular No. 01/2014 of 17 February 2014, an Action Plan including commercial activities intended to be implemented in the ensuing finance year based on the Business Plan, should be prepared. Nevertheless, the Action Plan had not been prepared in a manner of including the Human Resources Development Plan and Loan Repayment Plan.

**5.3 Audit Committee**

In terms of Section 7.4.1of the Public Enterprises Circular No. No.PED/12 of 02 June 2003, the Audit and Management Committee meetings should be held once in 03 months and those meetings should be in compliance with provisions of the Public Enterprises Circular No. PED/55 of 14 December 2010. However, only one Audit and Management Committee had been held in accordance with those provisions during the year under review.

## 6. Systems and Controls

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

| | Areas of Systems and Controls | Observations |
|---|---|---|
| (a) | Payment Control | Failure in obtaining the approval in terms of provisions of circulars in making certain payments. |
| (b) | Assets Management | Non-maintenance of Register of Fixed Assets and existence of underutilized assets. |
| (c) | Human Resources Management | Unavailability of approved cadre. |