

## **Litro Gas Terminal Lanka (Pvt) Limited – 2017**

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The audit of the financial statements of the Litro Gas Terminal Lanka (Pvt) Ltd (“The Company”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 comprising 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.

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**

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The Board of Directors (“Board”) is responsible for the preparation of these financial statements that give a true and fair view 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**

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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 judgment, 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 entity’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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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

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### 2.1 Opinion

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In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.2 Report on Other Legal and Regulatory Requirements

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

- a. The basis of opinion and scope and limitations of the audit are as stated above.
- b. In my 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.

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

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The following instances of non-compliances with Laws, Rules, Regulations and Management Decisions, etc. were observed in audit.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non- Compliance</b>
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- (a) Public Enterprises Circular No. PED/12 of 2 June 2003 - Guidelines for Good Governance.

- (i) Guideline 4.2.2

Monthly Performance Statement in Financial and Physical terms, Operating Statement, Cash Flow Statement, Liquidity position and borrowings and Statement on Human Resources including cadre positions, new recruitments had not been tabled at every monthly Board Meeting.

- (ii) Guideline 4.3 Minutes of Board Meetings had not been forwarded to the Secretary to the line Ministry within 10 days after confirmation of such meetings.
- (iii) Guideline 5.1.1 The Company should prepare a corporate plan for 3 years and update it annually as a rolling plan. The copies of the plan approved by the Board together with the updated Annual Budget should be forwarded to the line Ministry, Department of Public Enterprises, General Treasury and the Auditor General 15 days before the commencement of financial year. However, the company had not complied with that requirement.
- (iv) Guideline 5.2.2 (b) Approval of the Ministry and the concurrence of the Department of Public Enterprises, General Treasury had not been obtained for the capital expenditure over Rs. 10 million during the year 2017.
- (v) Guidelines 5.2.4 and 5.2.5 The draft Budget of the year 2017 which should have been approved by the Board of Directors three months before the commencement of the financial year had been approved in December 2017.
- Further, the copies of the approved Budget for the year under review had not been forwarded to the line Ministry, the Department of Public Enterprises, General Treasury and Auditor General as specified by the Guideline.
- (vi) Guideline 9.2 The Company does not have an organization Chart registered with the Department of Public Enterprises, General Treasury with an approved cadre. In the event of creation of a new cadre, or instances where there is excess cadre, the Company had not taken action in consultation with the Department of Public Enterprises.
- (vii) Guideline 9.3 The Company does not have schemes of recruitment and promotion approved by the Board and the Ministry with the concurrence of the Department of Public Enterprises.

### 3. Financial Review

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#### 3.1 Financial Results

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According to the financial statements presented, the operation of the Company for the year under review had resulted in a pre-tax profit of Rs. 1,705.17 million as compared with the corresponding pre-tax net profit of Rs. 1,785.65 million for the preceding year, thus indicating a deterioration of Rs. 80.48 million in the financial results. Further, gross profit was decreased by 0.5 per cent, net profit was decreased by 20 per cent in the year under review when compared to the year 2016. Increase of administration expenses and other operating expenses as compared with the previous year had been caused to this deterioration.

Further, after considering employee remuneration, taxation and depreciation for the year under review, the value addition of the Company to the Country was Rs. 2,138.13 million compared to the corresponding value addition of Rs. 2,169.3 million in the preceding year.

#### 3.2 Analytical Financial Review

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##### 3.2.1 Important Accounting Ratios

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According to the information collected, important accounting ratios of the Company for the year 2017 and preceding year are as follows,

	2017	2016
<b>Profitability Ratios (Percentage)</b>		
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Gross Profit Margin (GP)	82.75	83.48
Net Profit Margin (NP)	67.63	85.33
Return on Assets (ROA)	12.73	18.57
Return on Capital Employed (ROCE)	14.62	17.06
 <b>Liquidity Ratios (No. of Terms)</b>		
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Current Ratio	29.59	13.88
Quick Ratio	29.59	13.88

Gross profit margin and net profit margin of the Company were deteriorated by 0.8 per cent and 20.7 per cent respectively as compared with preceding year. Liquidity ratios had been increased when compared to previous year. Further, Return on Assets (ROA) and Return of Capital Employed (ROCE) was decreased by 31.4 per cent and 14.3 percent as compared with preceding year. Therefore, even the Profitability of the Company had been decreased, liquidity position had been increased.

### **3.2.2 Unsettled Advance Receivable for Longer Period**

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A resolution had been passed by the Board in 2014 for transferring Rs.100 million interest free advance to incorporate Sri Lanka Investment Holdings Ltd (SLIHL) for the purpose of segregation of Sri Lanka Insurance Corporation Limited as per Insurance Industry (Amendment) Act, No 3 of 2011 and it should be repaid by cash or by way of a dividend settlement on or before 31 August 2015 by SLIHL. However, it had not been recovered up to the audited date of 20 August 2018.

According to the above resolution, when incorporating SLIHL, two persons 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, as per the records of Registrar of Companies, above mentioned two shares had not been transferred to the Secretary to the Treasury up to the audited date of 20 August 2018.

## **4. Sustainable Development**

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### **4.1 Achievement of Sustainable Development Goals**

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Every public institution should act in compliance with the United Nations Sustainable Development Agenda by 2030. With respect to the year under review, the Litro Gas Terminal Lanka (Pvt) Ltd was not aware as to how to take measures relating to the activities under purview of their scope.

Consequently, Litro Gas Terminal Lanka (Pvt) Ltd was failed to take actions to identify the sustainable development goals and targets relating to the activities thereof, along with the milestones in respect of achieving those targets, and the indicators for evaluating the achievement of such targets.

## **5 Accountability and Good Governance**

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### **5.1 Internal audit**

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Internal audits provide a number of important services to the management of any organization. These include detecting and preventing fraud, testing internal control, and monitoring compliance with organization's policies and government regulations. Therefore, internal audit function plays a vital role in the development of the organization. The following observations are made about the internal audit function of the Company.

- (a) Although the Internal Auditor is directly responsible to the Board of the Company, according to the organization chart available with audit, the Internal Auditor is directly responsible to the Managing Director of the Company.

- (b) An internal audit procedure or manual had not been introduced by the Company.
- (c) The approval of the Board to the internal audit plan for the year 2017 had not been obtained and no proper risk assessment had been made as to cover all the significant areas.
- (d) The observations and recommendations of the internal audit have not regularly been evaluated and reported to the Board of Directors of the Company.
- (e) According to the information available with the audit, some areas had been restricted to internal audit eg. Staff Salary.

## **5.2 Audit Committee**

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As per the provision of the Public Enterprises Circulars, No. PED/12 dated 02 June 2003 and No. PED/55 dated 14 December 2010, an Audit Committee had not been established by the Company.

## **6 Systems and Controls**

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Weaknesses observed in systems and controls 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 area of Human Resources Management.