Litro Gas Lanka Limited - 2021

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Litro Gas Lanka Limited ("the Company"*)* for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 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 2021, 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 and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendation
(a.) Total container deposit receivable as at 31 December 2021 was Rs. 5.1 million. This includes the long outstanding amounts due from 2002. The Company has failed to recover such outstanding amount yet.	Impairment provision of Rs. 4,408,221 has been made in the books of accounts in 2018, on behalf of the container deposit balance of Rs. 5,083,981.	The company should take necessary actions to recover outstanding balances early as possible.
(b.) The Company had paid Rs. 15.5 million and 29.8 million as Ports and Airport Development Levy at the importation of LP Gas in 2013 and 2019 respectively for the cancelled shipments. However, the Company had not recovered those balances from the Department of Customs.	Impairment provision of Rs. 15,478,747 has been made in the book of accounts in 2020, for the PAL receivable of Rs. 15.5 mn.	The company should take necessary actions to recover outstanding balances early as possible.

1.6 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
The former chairman/CEO had been paid a vehicle loan amounting to Rs.9.753 million with zero interest rate in August 2020 and 50% of the said loan amounting to Rs.4.876 million would be borne by the company. However, outstanding total loan amount including the 50% portion borne by the company had been settled by the former	The former chairman draws only the perks entitled for the CEO not as the chairman as per the board approval.	It is recommended to separate the two conflicting roles of Chairman and CEO. Further review the staff loan scheme and recover the loan amount in full and charge a reasonable interest on staff loans granted.

chairman/CEO on 26 July 2021 since he didn’t complete 5 years service as per the loan agreement due to the replacement of the position by General Treasury.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a.) Department of Management Services Circular No. 03/2018 dated 18 July 2018.	(i.) As per the circular, relevant authorities should refrain from recruiting employees and increasing the salaries and allowances of their employees, without obtaining prior approval from the department of management services.	The staff salary ranges and allowance schemes approved by the chairman and board of company as per the company’s article of association. No practice for HR to get approval from the Department of Management Service.	The Company should adhere to the instructions issued by the relevant authorities time to time in managing activities of the company and the practice of the company shall be changed according to the directions of the Ministry of Finance.
	(ii.) Staff vehicle loans amounting to Rs.127.06 Million to the 22 officers of the company with zero interest rate had been granted during the year 2020 and 2021. 50% of loan value, amounting to Rs. 63.53 Million is borne by the company.	Car policy introduced by Shell Gas Lanka Ltd and after so many revisions made by company. Chairman has appointed a subcommittee under the article of association. They have recommended making the upgrade the existing car policy.	The recommendations made by the sub-committee appointed cannot be accepted since conflict of interest had been observed. Therefore, it is recommended to recover the loan amount in full and charge a reasonable interest as practiced by the other government companies. Further instructions can be sought from the General Treasury.

(iii.) Job related vehicle loans amounting to Rs.251 million to the 33 officers of the company with zero interest rate had been granted during the month of September 2020.	Job related vehicles loans were also granted in line with the same car loan policy. This was also a benefit which had been enjoyed even during the shell period.	It is recommended to recover the loan amount in full and charge a reasonable interest as practiced by the other government companies. Further instructions can be sought from the General Treasury.
(iv.) Monthly vehicle allowance to 27 officers of JG 1-5 group had been increased 30% with effect from August 2020. The new monthly vehicle allowance is ranging between from Rs. 143,000 to Rs. 443,300.	Allowances paid in line with the committee recommendation and the car policy of Litro Gas Lanka Ltd which is approved by the board of directors of the company.	The members of the sub-committee was also the beneficiaries of the scheme. Therefore, it is recommended to adhere to the instructions issued by the respective authorities and prior approval can be sought from the General Treasury if any essential deviations are required.
(v.) Monthly vehicle allowance to the 33 officers of JG 6-9 group who are entitled for job related vehicle loans had been granted with effect from September 2020. The monthly vehicle allowance is ranging between from Rs. 100,000 to Rs. 140,000.	Allowances paid in line with the committee recommendation and the car policy of Litro Gas Lanka Ltd which has approved by the board of directors of the company.	The company should adhere to the circular instructions issued by the General Treasury. The recommendations made by the sub-committee cannot be accepted since conflict of interest had been observed of the members of the sub-committee was also the beneficiaries under this scheme.
(vi.) Monthly vehicle allowance to the officers of JG 6-9 group who are not	Allowances paid in line with the committee recommendation and the car policy of Litro Gas Lanka Ltd	The company should adhere to the circular instructions issued by the General Treasury. If

		entitled for job related vehicle loans had been increased with effect from August 2020. The new monthly vehicle allowance is ranging between from Rs. 15,000 to Rs. 50,000.	which has approved by the board of directors of the company.	any deviations are essential, the instructions and the prior approval shall be sought from the General Treasury.
		(vii.) Salary revision based on the market adjustment of 5% - 40% on the salary drawn as at 31 December 2020 of each individual of the company had been made. The new salary is ranging between from Rs. 32,972 to Rs. 1,610,000.	As a practice the company remuneration benefits are determine by the Chairman and CEO and the Board of Directors. A board approval to implement the compensation and benefit survey done by PWC and all staff salary were implemented as per the remuneration committee recommendations and a letter with all details of the structure carder and salary structure has been forwarded to the Department of Public Enterprises.	The practice of the company shall be adjusted according to the changes of the instructions issued by the relevant authorities from time to time. If any deviation is necessary the instructions and the prior approval shall be sought from the General Treasury.
		(viii.) Monthly entertainment allowance of Rs.150, 000 and Rs.100, 000 to respectively chairman and sales director are paid.	A monthly payment of MD/CEO is a continuous practice in the company. Board approval was granted for the remuneration of CEO including the entertainment allowance and company was properly communicated to the appropriate ministry and the Department of Public Enterprise.	A conflict of interest was occurred in deciding his own benefits since two conflicting roles of the Chairman and the CEO of the company held by an individual. Therefore, the Company should obtain the prior approval of the General Treasury.
(b.)	Department of public Enterprises Circular No. PED 01/2015 dated 25 May 2015 and	As per the circulars, Chief Financial Officer/Chief Operations Officer and any other officer who holds a post approved by	As per the circular, allowances specified in this circular will not apply to Litro Gas Limited as it falls under the category of a subsidiary. The payments of	The recommendations made by the sub-committee cannot be accepted since conflict of interest had been

	public Enterprises Circular No. PED 1/2015(i) dated 27 October 2016.	Management Service Department and has been placed equal or above HM 1-1 category of any SOE will be entitled to use only one official vehicle and a fuel allowance equivalent to 140 and 120 liters per month respectively and the above officers could either be provided an official vehicle or could draw a monthly allowance of Rs.50,000 and monthly fuel allowance. Contrary to the circulars; (i.) Official vehicles or monthly allowance had been granted to the certain officers who are not entitled to the official vehicle. (ii.) Monthly vehicle allowance ranging from Rs. 100,00 to Rs. 371,800 which is exceeding the monthly allowance of Rs.50,000 is paid to the 59 officers. (iii.) Monthly fuel allowance ranging from 200 liters to 550 liters which is exceeding the monthly fuel allowance of 140 or 120 liters is provided to the 59 officers.	allowances to the chairman, CEO, Board of directors shall be decided by the respective board having regarded the competitive market rates. Accordingly and in terms of the articles of association of the company instead of PED 01/2015 followed the car policy approved by the board comprising of a representative of Public Enterprise Department.	observed. Therefore, it is recommended to adhere to the circular instructions and if any deviations are essential the instructions and the prior approval of the General Treasury shall be sought.
(c.)	Department of	(i.) As per the circular,	Payments of allowances and	Two conflicting roles

Public Enterprises circular No PED No. 01/2020 dated 27 January 2020.	Chairman/Managing Director/Executive Director/CEO/ Director General of any SOE will be entitled to use only one official vehicle and a fuel allowance equivalent to 150 liters per month and the above officers could either be provided an official vehicle or could draw a monthly allowance of Rs.50,000 and monthly fuel allowance. However, such officers shall not be provided with a driver or a driver' allowance. Contrary to the circular; - Monthly vehicle allowance of Rs. 443,000 which is exceeding the monthly allowance of Rs.50,000 is paid to the chairman/CEO. - Monthly fuel allowance of 500 liters which is exceeding the monthly fuel allowance of 150 liters had been provided to the chairman/CEO. - Monthly driver allowance of Rs.50,000 is paid to the chairman/CEO. (ii.) As per the circular, the	providing transport facilities to chairman, Executive and Non-Executive directors and observers are approved by the board of directors at its meeting held on 21st February 2020 and 31st July 2020 as per the memorandum and articles of association item no 83, 76, 77 and 78.	of Chairman and CEO of the company held by an individual. Therefore, conflict of interest was occurred in deciding his own benefits. Therefore, the prior approval of the General Treasury shall be required.

		total sitting allowance for Non- Executive Director (NED) should not exceed Rs. 25,000 per month and he is only entitled to the sitting allowance. Contrary to the circular; - Sitting allowance of Rs.25,000 per board meeting is paid to the three Non-Executive Directors. Monthly vehicle allowance of Rs.100,000 is paid to the three Non-Executive Directors.		
(d.)	Department of Public Enterprises Circulars No. PED 03/2018 dated 18 July 2018.	Payment of bonus amounting to Rs.60, 000 per employee (Except employees under collective bargaining agreement) of the company had been paid during the year under review which was in contrary to the bonus amount of Rs.13,500 per employee as per the guidelines of the circular.	The annual performance-based bonus of Non CBA employees are determining on the basis of relative individual performance and the performance of the company. The number of months of bonus payment should be in line with the CBA employee's payment and the numbers of months paid by our parent company. (SLIC) Bonuses schemes approved by the board and recommended by the remuneration committee.	The Company should adhere to the instructions of the circular and any deviation is necessary the prior approval of the General Treasury shall be required.
(e.)	Section 8.3.3 (C) of Public Enterprise Circular NO. PED/12 dated 02nd JUNE 2003.	Amount of Rs.43.91 million had been paid for the employees (except employees under collective bargaining agreement) of the company under the bonus	There are many services like filling operation cylinder maintenance operations and transport which are handle by over 200 manpower workers and recommendation obtain by the remuneration committee	The Company should adhere to the instructions of circular and any deviation is necessary the prior approval of the General Treasury shall be

		scheme of the company during the year under review without obtaining the approval from the General Treasury.	and board approval was granted to review the current compensation structure through a remuneration committee for the years 2020 and 2021.	required.
(f.)	Consumer Affairs Authority letter dated 20 April 2021 to the Chairman of the company.	CAA had directed the company to withdraw the 18 Liters premium hybrid LP gas cylinder from the market with immediate effect until further notice due to the company mislead the consumer by filling 9.7Kg of LP gas into the existing 12.5Kg domestic cylinder which was low in weight than the existing 12.5Kg cylinders as 18 liters was equal to approximately 9.7Kg of LPG. However, 18 Liters premium hybrid LP gas cylinder had been distributed to the market up to July 2021.	The letter dated 20th April 2021 was the initial letter for which the CAA has replied for the Litro's letter dated 9/4/2021introduction of the New Hybrid cylinder However, subsequent to the said letter dated 20th April 2021 there are so many corresponding documents to ensure that the CAA has requested Litro only to maintain adequate Stocks of 12.5Kg but not requested to withdraw the same 18ltr Cylinder from the market.	The Company should properly deal with the instructions issued by the relevant regulators.
(g.)	Section 18(1) of the Consumer Affairs Authority act No. 09 of 2003	The company had increased the price of 18 liters premium hybrid cylinder by Rs.236 or 20% without the prior approval of the consumer affairs authority (CAA). Accordingly, it was observed that total increased price for the total number of quantities of 18 liters premium hybrid cylinders sold without approval of the CAA was Rs.1.22 billion.	A price control or the approval of the CAA is required only for the size of 2.5kg, 5kg and 12.5 cylinders. The company has informed the CAA as a business model and a new product to overcome the price control of CAA the 18 liter cylinder was introduced to the market as a policy and a strategic measure even with the approval of the Director represented by the Department of Public Emperies.	The Company should properly deal with the instructions issued by the relevant regulators as the price regulated product.

(h.)	Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka and the National Audit Act No. 19 of 2018	As per the provisions, the Auditor General should be the auditor to perform audit of state-owned companies including the company. An audit firm in public practice had been appointed to carry out the audit of the company for the year 2020 contrary to the constitutional provisions and they had performed the audit of the company for the year 2020.	.The constitution especially Article 154 clearly sets out the entities which fall within the purview of the Auditor General for its audit functions. Article 154 especially its Sinhala text was amended in the recent 20th amendment to the Constitution thereby removing any ambiguity which prevailed whatsoever. However, to ascertain as to whether LGLL & LGTLL comes under the preview of the auditor general is a question of Law which has to be decided by a court of law but not by the company or the attorney general. The above position had been accepted by the court of appeal by issuing notices of the said actions and by granting interim orders preventing auditor general from auditing the affairs of both companies.	The board should ensure that the adherence to the law of the country and maintain integrity when continuing business of the company.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 7,377,691,708 and the corresponding profit in the preceding year amounted to Rs.83, 947,583. Therefore, a deterioration amounting to Rs. 7,461,639,291 of the financial result was observed. The reason for the deterioration was net gross loss of Rs. 7,244,616,838 earned due to non-adjustment of price to cover the cost of the product.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding two (02) years with the percentage of increase or decrease are as follows.

For the year ended 31st December,	Amount (Rs, 000)			Percentage of Change		
	2021	2020	2019	2021	2020	2019
Revenue from contracts with customers	52,308,942	39,714,783	43,730,228	32%	-9%	12%
Cost of sales	59,553,559	37,392,413	36,489,126	59%	2%	0.24%
(Loss) / profit from operations	(9,871,304)	(303,493)	4,083,343	-3153%	-107%	1138%
Finance income	276,479	678,964	878,588	-59%	-23%	34%
Finance expenses	575,350	291,358	34,669	97%	740%	-93%

2.3 Ratio Analysis

Key ratios compared with the preceding three (03) years are as follows.

Ratio	2018	2019	2020	2021
Net profit Ratio	0.95%	11.35%	2.53%	-18.34%
Return on Capital Employed (ROCE)	1.37%	18.59%	4.45%	-42.03%
Return on Equity	0.52%	22.13%	2.23%	-73.20%
Assets Turnover	220.36%	271.67%	233.32%	260.31%
Return on Assets	1.21%	16.52%	4.02%	-31.64%
Current Ratio	3.51	4.16	3.25	1.36
Quick Ratio	2.89	3.66	2.87	1.03
Financial Leverage	1.95	1.89	1.81	3.01
Debt to Asset Ratio	0.49	0.47	0.48	0.67
Debt to Equity Ratio	0.95	0.89	0.87	2.01
Current to Total Liabilities	0.25	0.24	0.20	0.37

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
(a.) Legal Fees – Replacement of the Auditor General from the audit of the company for 2020. (i.) Professional services had been obtained for the proposed court of appeal Writ application relating to the replacement of the Auditor General from the audit of the Company for 2020. Accordingly, a sum of Rs. 2.6 million had been paid by the Company to the consultants on 05 February 2021.	In terms of Article 4 of the ancillary powers of LGLL and Article 19 of LGTLL Articles empowers the Board of Directors to appoint or engage employ, maintain, agents… in Sri Lanka or elsewhere and to remunerate any such rate such rate and such manner as shall be thought fit. Accordingly, Board of Directors has sought services of the said President Counsel as the Hon Attorney General does not provide legal advice to private companies. As a measure of safeguarding the interest and the right of the shareholders, to appoint an auditor of their choice in view of the provisions of the companies Act, the company had sought services of suitable counsel to appear in case the Auditor General objects for the appointment of PWC. Hence, the said sum of money had been paid for the same counsel and his juniors on retaining as counsel to appear before Hon. Court of Appeal, for consultations, for perusing papers for strategic and legal advice, and for drafting and settling petition and affidavit.	The board shall adhere to the law of the country, directions of the holding company and the Secretary to the Treasury when carrying out affairs of the company. If there is any requirement to obtain legal consultation, the company should follow the Guidelines selection & employment of consultants August 2007 issued by the National Procurement Agency of Sri Lanka.
(ii.) The Auditor General had sent a letter to the company on 07 January 2021 stating that audit of the companies will be carried out by his officers under his direction as Attorney General expressed his opinion that there is no legal impediment for the	As you are aware appointment of the Auditor General to audit the affairs of the company is a matter for the shareholders of the company to decide at an AGM and the objection for such appointment of an external auditor for LGLL & LGTLL should also be submitted either at the AGM or prior to the AGM. However, the said letter of the Auditor General was received only after a month of the AGM, the board of Directors were compelled to sought a	

	Auditor General to carry out such an audit. Subsequently, the Company had obtained the legal opinion on the said letter incurring of Rs.1.5 million.	written legal opinion from Mr. Sanjeewa Jayawardhana PC on the same letter forwarded by the Auditor General. The same Board paper approves the payments for an opinion from Mr. Sanjeewa Jayawardhana PC. Accordingly company has taken steps to pay the said fee to Mr. Sanjeewa Jayawardhana PC in terms of the provisions referred in article 4 of the ancillary powers of LGLL.
(iii.)	After obtaining legal advices, the company had instituted Writ applications in the court of appeal on 22 May 2021 challenging the decision of the company come within the constitutional jurisdiction of the Auditor General. However, the case had been withdrawn by the company in terms of the board decision dated 30 July 2021. Legal fees relating to the said case amounting to Rs. 8.1 million had been paid by the Company in June 2021.	The major shareholder by its letter dated 20th July 2021 has instructed the Board of Directors of LGLL. The Board of Directors at the Board meeting held on 22/7/2021 decided to take steps to appoint the Auditor General to examine the finance of the company. it is only in view of the revocation of the proxies submitted on 23rd April 2021 by the major shareholder LGLL sole shareholder by its letter dated 20/7/2021in respect of getting the Auditor General appointed to LGLL, a necessity was arisen to withdraw the court of appeal writ application Nos: CA Writ 286/2021 & CA Writ 287/2021 in which the court has issued formal notice on the respondents together with an relief preventing the Auditor General auditing the company LGLL until 21st September 2021. Hence, the Auditor General will be able to commence executing his official duties only after getting the aforesaid interim order vacated by court or after getting these cases withdrawn. The court of appeal issued notices of the said actions and interim order inter-alia preventing the Auditor General from auditing the affairs of company.
(iv.)	The total expenses amounting to Rs. 12.2 million incurred relating to the said matter were	Company was represented by the eminent counsels in the court of appeal by president's Counsel who imparted their un form opinion on this matter. Sri Lankan legal system is enriched with traditions sand

observed as uneconomical expenditure.	practices of English system of Law maintaining the Lawyer- Client relationship. There is no structure or applicable rule in this area of making payments and other related matters. Accordingly, there is no bargaining power for the client when it comes to the payment of fees to an eminent and able counsel who could safeguard the rights of the litigant in court. It is advisable to do a market survey on legal fees of the same or similar counsels in order to ascertain whether the said amount is an uneconomical expense.	
(b.) Tanks/assets had been supplied to the 7 bulk customers without charging a rental fee during the year 2020 and 2021 while two tanks had been supplied to an another bulk customer under monthly rental fee. Further, ownership of the tanks/assets which are supplied free of charge is remained to the Company for a period of 10 years and after the 10 year period, tanks/assets will automatically transfer to the customer.	Depends on the importance of the customers many tools have been used to give benefits more than the competitor. Also, Litro got additional volume around 1300MT which total into more than 2500 MT from this group Since Terminal throughput charge taken as USD 51, there was an incremental income for Terminal and positively impacted on the consolidated margin of two companies.	The company should have a approved policy for bulk sales and treat customers in fair manner. If any deviation is essential, which shall be done with proper authority.

3.3 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
It was not observed that Sales and Marketing Policy and Pricing Policy Reference applied by the Company had been approved by the Board of Directors.	We submitted the board approval for the policies amended including sales and marketing policy.	The company should ensure that the sales functions of the company are in line with the board approved policies to avoid inefficiencies and to avoid any possible misconduct.

3.4 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a.) Revenue from bulk customers and commercial customers was Rs.7.98 billion and Rs. 3.77 billion respectively for the year under review. It was not ensured that pricing policy for bulk customers and commercial customers was a transparent policy due to following reasons. (i.) Different discount rates and margin had been applied to the Imported Product Cost to decide the pricing for each customer.	Commercial sector is highly competitive and competitor was very aggressive in marinating customer by offering benefits.	There should be a clear policy and process approved by the appropriate authority for deciding pricing and other relevant concessions offered by the company to the bulk and commercial customers to enhance the transparency of the transactions.
(ii.) Different discount rates had been applied to decide the pricing for same customer in monthly basis at more instances.	Special discounts have offered to safe guard the volume and customers in the short term due to aggressive approach by the competitor.	
(iii.) Net discounts (gross loss) had been applied to the Imported Product Cost to decide the pricing for more customers since 26 September 2020 and the Board approval had not been obtained for this price revision with net discounts.	Different discount and pricing option has used to get volume and market share. Commercial customers was offered during this period at lesser price to support the industry and people to rebuild their livelihood due to Covid pandemic.	
(iv.) LPG had been supplies to some customers below imported product cost (which was excluded the throughput fee of USD 51). Total gross loss (Price below Imported Product Cost which was excluded the throughput fee of USD 51) was Rs. 77 million for the year under review in supplying LPG only to the bulk customers.	Competitor has offered very low prices with a small margin or no margin to gain volumes. Even though the GP margin is not effect the throughput is charged at US$ 51(Normal throughput US$ 20). This US$ 31 is a margin by itself.	

(v.) Gross loss range per Kg (Price below Imported Product Cost which was excluded the throughput fee of USD 51) was between Rs. 10.64 to Rs.45.31 for the year under review relating to the commercial customer months of 1,597 out from discount allowed commercial customer months of 6,695.		
(vi.) It was observed that bulk supply of LPG had been supplied below actual purchased cost of LPG purchased from Ceylon Petroleum Corporation at some instances.	Since April 2021 only imported product cost has considered for the bulk costing and pricing preparation. That was mainly due to uneven supplying from CPC and the quantity supplies was considerably small. Import cost is higher than CPC purchase cost and taking import cost for costing is always safer. CPC per Kg cost is lower than the per Kg imported cost always due to exchange rate, PAL and freight cost.	
(vii.) In addition to the supplying equipment to the three customers at free of charge in 2020, net discounts to the imported product cost was granted for the year under review without any margin to cover overhead cost.	Depends on the importance of the customers many tools have been used to give benefits more than the competitor. Also litro got additional volume around 1300 MT which total into more than 2500 MT from this group since terminal throughput charge taken as USD 15, there was an incremental income for terminal and positively impacted on the consolidated margin of two companies.	
(b.) Supply of LPG through the imports for the year under review. (i.) Maximum Vapor Pressure, guage @ 37.8 Deg.C of LPG considered by the company is 830 kpa (8.3 bar) and Maximum Vapor Pressure,	All the regulators imported and distributed by Litro Gas Lanka Limited are in line with a maximum pressure limit of set out in LPG standards issued by Sri Lanka Standards Institute SLS 712:1998. Litro Gas Lanka Ltd does not	The company should have procedure to identify the risks arising from various sources to damage the LPG market and consumers and aware regulatory

	gauge @ 37.8 Deg.C of LPG as per the SLS 712 is 1430 kpa (14.3 bar). Further, analysing the quality reports of LPG at discharge port during the year 2020 and 2021, it was observed that Vapor Pressure, guage @ 37.8 Deg.C of LPG was above the 600 kpa (6 bar) when propane percentage contained in the composition of LPG was above 30 precent.	import or distribute any regulator having 6 bar inlet pressure rating. The inlet pressure rating of the regulators those are distributed by Litro Gas Lanka has always been 14 bar. The LPG imported and distributed by Litro Gas Lanka has always had the vapor pressure in between 420-830 max. kpa @ 37.8 Deg. C since 2010 and is in line with the specification criteria referred in SLS 712:1998 LPG standard.	authorities for taking correction actions to avoid any harm to the consumers and the industry.
(ii.)	It was observed that as per the quantity certificate at load port, the composition of LPG of the one shipment had not met the required specification. (Propane, range from 25 percent to 40 percent and Butane, range from 60 percent to 75 percent by weight percentage). The composition of LPG in the two Spheres in the said shipment which was discharged on 17 May 2021, was propane, 85.62 percent and butane, 14.38 percent (1,669.404 MT) and propane, 8.76 percent and butane, 91.24 percent (2,007.181 MT) respectively.	No answers provided by the management.	The Company should ensure that the imports were in line with the LPG product specifications stipulated in the standard and the agreement and accept only the product within the specification.
-	The above shipment was delivered on the request made by the director of LGTLL on 29 April 2021. Any approval of the Cabinet of Ministers (Procurement of LPG are made through the Standing Cabinet Appointed Procurement Committee and Cabinet of Ministers approves the award of contract.) and board of directors had not been obtained for such combination of LPG which was significantly differed with the specification of LPG. As per the		

written statement given by the director of the Litro Gas Terminal Lanka (Pvt) Ltd (LGTLL), the said request was made on the verbal instruction given by the Chairman of the Company and Director of Operation.

- LPG imported by the said shipment was filled to 4 Spheres in Kerawalapitiya and mixed with the balance LPG contained in the spheres on 17 May 2021. After mixing LPG, quality of LPG contained in Sphere A and D had been inspected by the Independent Inspector on 17 and 18 May 2021 respectively. However, the composition of LPG contained in Sphere D, had not within the required specification (propane, 14.17 percent and butane, 84.91 percent).

- Quality of LPG contained in Sphere B and C had not been inspected by the Independent Inspector. Without inspecting the LPG contained in Sphere B, LPG aggregating to 1743.432 MT contained in Sphere B had been issued to the bowsers and filling plant on 17, 18 and 19 May 2021. Later, LPG imported on 19 May 2021 was filled to 04 Spheres and mixed with the balance LPG contained in the spheres.

- After mixing LPG delivered on 19 May 2021 to the Sphere B and C, quality of LPG contained in the Sphere B and C should be checked because quality of LPG (including the composition of LPG) had not been measured since 17 May 2021.

	However, quality of LPG contained in the Sphere B and C as at 06.00 hrs on 20 May 2021 had not been inspected by the Independent inspector.		
	- Quality of LPG (including the composition of LPG) contained in gas cylinders – 2.3 Kg, 5 Kg, 18 Litres,12.5 Kg and 37.5 Kg produced using LPG contained in Sphere B and C from 17 May 2021 to date which LPG filled to the said Spheres on 17 May 2021 had reduced to significant level, had not been measured.		
	- For making payment to the above shipment which composition of LPG had not met the required specification, required approvals such as board of directors' had not been obtained by the Finance Division.		
(iii.)	Test checks were revealed that there were significant differences between LPG composition indicated in quantity certificate at lord port and LPG composition indicated in quality report at discharge port relating to the 31 bills of lading which were imported during the year under review. It was resulted to inaccurate payment to the supplier due to CP per MT for the particular shipment had been decided based on the percentage of Propane and Butane contained in LPG quantity at lord port using the quantity certificate submitted by the independent inspector at lord port instead of using composition of LPG at discharge port as per the contract agreement.	It is globally accepted phenomena in oil and Gas industry that the test result of load port and discharge port can have significant variation due to the nature of the product, sampling method, instrument used, calibration of instruments & human competencies. That is why all the Oil and Gas contract make binding to either load or discharge port results depending on the selected mode of supply terms. This has been very well established in the publication of "Liquefied Gas Handling Principles "by society of international Gas Tankers & Terminal Operations Ltd.	The company should ensure that the product quality is within the range specified in the supplier agreement and the standards to ensure the safety of the consumers.

(iv.)	The composition of LPG relating to the 06 bills of lading out of above 31 bills of lading had not within the required specification as per the quality report at discharge port.	The all shipments are within the pressure range of 420-830 kpa and in compliance with the requirement of SLS 712:1988,	
(v.)	Quality report on LPG relating to the two bills of lading had been obtained from another independent inspector on 29 January 2020 in addition to the quality report at discharge port. According to the report, propane weight percentage was 22.39 percent and there was a difference of 9.91 percent with propane percentage indicated in the lord port quality report.	It is globally accepted phenomena in oil and Gas industry that the test result of load port and discharge port can have significant variation due to the nature of the product, sampling method, instrument used, calibration of instruments & human competencies. That is why all the Oil and Gas contract make binding to either load or discharge port results depending on the selected mode of supply terms. This has been very well established in the publication of “Liquefied Gas Handling Principles “by society of international Gas Tankers & Terminal Operations Ltd.	
(vi.)	Existence of significant differences between LPG composition indicated in quantity certificate at lord port and LPG composition indicated in quality report at discharge port was questionable at the audit. Further, even though there were two spheres filled with LPG in a ship, quality of LPG contained in the ship had been checked at once at load port (As there was an only one quality report). However, quality of LPG contained in each sphere of the ship had been checked at discharge port. (As there was separate quality report for sphere 1 and 2).	We will make arrangement to request for two load port reports in order to minimize the potential difference.	
(vii.)	Quality reports of LPG at the discharge port had not been documented by the both Procurement	Finance division does not have technically qualified staff to read quality reports and not responsible	The finance professionals should be able to read and

	Division and Finance Division and it had only been documented by LGTLL. Even though, the Procurement Division conducts all activities of the procurement of LPG, it was not checked that delivered LPG was complied with the all conditions and requirements of the supply agreement even it was a duty of the Head of Procurement as per his Job Description. On the other hand, compliance of delivered LPG with the all conditions and requirements of the supply agreement is mandatory requirement for the approving the payment of the LPG. However, quality reports of LPG at the discharge port had not been considered or documented by the Finance Division for the approving the payment.	to measure the quality of the product and LGTLL is handling the acceptance after ensuring the product quality with the support of third-party inspector. Quality checking, accepting orders and any approval related to the LPG shipments is a responsibility of LGTLL and the finance division is make payments only for the accepted and discharged LPG shipments which occurred well before the payment date.	understand the quality report prior to making the payment to ensure that the required specifications were met as an internal control to ensure the quality of the LPG.
(viii.)	As per the specification of LPG which are imported, odorant (Ethylmercaptan) contained in LPG should be 26 litres per 1000 MT. However, it had not been measured by both independent inspector at lord port and discharge port other than smell test. It was not ensured that sufficient quantity of odorant was contained in refilled gas cylinders in order to feel gas leak by the users and avoid any accident in the event of a gas leak.	Specification has been stated to add 26 Liters per 1000MTs of LPG liquid in order to achieve the SLS 712:1988 requirement of having 14 PPM of Odorant in liquid phase of LPG, since there is no test method to verify the above concentration accurately in liquid phase of LPG, only method of testing is “Smell Test” which is clearly stated in the specification table and carried out accordingly in discharge port sample testing. That is why, the authorities had to recently deploy team of staff members representing CAA, SLSI, ITI to do smell test and approve the shipments for discharge.	The company should ensure the safety of LPG users by deploying appropriate test method to ensure the quality of the LPG.

(ix.) CP of every month is published on last day of previous month or 01 day of current month. There were significant fluctuations in CP of the month of nominations for Propane and Butane per MT. According to the above CP fluctuations, it was observed that the opportunity to get cost benefit at the instances of low prices and the opportunity to minimize the cost increases at the instances of high prices are limited to the Company due to the following reasons.

- About 99 per cent of the demand forecast (Subject to +/- 10 per cent from 740,000 MT) for the year 2020 and 2021 was agreed to supply through this procurement. Then, opportunity for get low prices through the spot purchases which are procured following the appropriate government procurement guidelines is limited.

- As per section 12 of the agreement, on or before the 10th of the current month, the company shall submit/nominate their required volume for the next month. At that time, CP for the next month has not been published (it is published on last day of current month or 1 day of next month.). Therefore, opportunity to nominate more quantity at the situation of low prices and nominate low quantity at the situation of higher prices is limited to the company.

LPG is one of the essential product in Sri Lanka & continue supply required to cater the Sri Lankan LPG Market. Considering the limitations of the company which is stated below, Management is decided to proceed with 1 or 2-year Contract agreement instead of SPOT purchasing.

- 8,000 MT + 3,000 MT storage availability, however, daily 1,000-1,200 MT required to cater the demand.
- To operate with uninterrupted supply, dedicated Company, Vessels, & operational plan should be placed throughout the period.
- Unable to take considerable advantage with the nominations due to the less storage facility. Further as an industrial norm, buyer need to give the requirement to the supplier before one month in order to plan the logistics arrangements.

Proposed Plans / Strategies in line

- To expand the CBM facility to SPBM to cater bigger vessels.

To expand the storage facility to two spheres of 3000MT each.

The company should incorporate more flexibility to the terms and conditions of the agreement to gain benefit to the country in the event of price fluctuations.

	• There are limited storages facilities to the company. Storage facility of Kerawalapitiya, Mabima and Hambanthota is 8,000 MT, 424 MT and 2,700 MT respectively. As a result, opportunity to nominate more quantity at the situation of low-price trend in LPG Forward Curves is limited. • The maximum allowable capacity of ship in CBM facility at Kerawalapitiya is 20,000 M3 (Normal quantity per ship is between from 2,500 MT to 4,000 MT) and 07 berths are normally operated per month. Therefore, importable quantity per month is limited.	LPG is one of the essential product in Sri Lanka & continue supply required to cater the Sri Lankan LPG Market. Considering the limitations of the company which is stated below, Management is decided to proceed with 1 or 2-year Contract agreement instead of SPOT purchasing. • 8,000 MT + 3,000 MT storage availability, however, daily 1,000-1,200 MT required to cater the demand. • To operate with uninterrupted supply, dedicated Company, Vessels, & operational plan should be placed throughout the period. • Unable to take considerable advantage with the nominations due to the less storage facility. Further as an industrial norm, buyer need to give the requirement to the supplier before one month in order to plan the logistics arrangements. Proposed Plans / Strategies in line • To expand the CBM facility to SPBM to cater bigger vessels. • To expand the storage facility to two spheres of 3000MT each.	The company should have proper strategic plans to reduce cost of imports and supply LPG at possible lowest price to the end consumers.
(x.)	Lowest CP during the year 2020 and 2021 was 230 USD for Propane and 240 USD for Butane in April 2020 and nominated quantity for April 2020 was 26,000 MT. Highest CP was 870 USD for Propane and 830 USD for Butane in November 2021 and nominated quantity for November 2021 was 33,000 MT. Therefore, the opportunity for getting cost benefit at the instances of low prices and the	LPG is one of the essential product in Sri Lanka & continue supply required to cater the Sri Lankan LPG Market. Considering the limitations of the company which is stated below, Management is decided to proceed with 1 or 2-year Contract agreement instead of SPOT purchasing. • 8,000 MT + 3,000 MT storage availability, however, daily	The company should take timely decisions to get the benefit of price fluctuations in the market by nominating more quantity in the event of low prices.

	opportunity to minimize the cost increases at the instances of high prices had not been obtained by the company.	1,000-1,200 MT required to cater the demand. • To operate with uninterrupted supply, dedicated Company, Vessels, & operational plan should be placed throughout the period. • Unable to take considerable advantage with the nominations due to the less storage facility. Further as an industrial norm, buyer need to give the requirement to the supplier before one month in order to plan the logistics arrangements. Proposed Plans / Strategies in line • To expand the CBM facility to SPBM to cater bigger vessels. To expand the storage facility to two spheres of 3000MT each.	
(xi.)	As per Section 1.4 of the agreement entered with the supplier, the buyer will specify the appropriate combination of Propane and Butane for any special requirement with the monthly nomination or otherwise. However, this provision had not been used by the company even at the instances of higher monthly CP was reported and CP for Propane was higher than CP for Butane in order to minimize the cost of LPG. For an example, a sum of USD 74,938.51 could have been reduced if monthly nomination for November 2021 had been specified with 30 percent from Propane and 70 percent of Butane.	Please note that under the provisions of clause 1.4 in the agreement, buyer is intended only to specify the appropriate combination of propane and butane only when there is a special requirement of product, which is beyond the specification stipulated in attachment 1. i.e the normal product specification sheet. This does not apply for normal monthly nomination , since we order the product within the same specification.	The company should seek the possibility of reduce import cost by nominating appropriate combination within the specified limits in the agreement.

(c.) Distribution of the 18 liters premium hybrid LP gas cylinder

(i.)	It was observed that the composition of LPG of the 18 litres premium hybrid gas cylinder mentioned in the letter dated 28 April 2021 sent to the Director General of the State Ministry of Cooperative Services, Marketing Development and Consumer Protection (Propane, 40 percent to 50 percent and Butane, 50 percent to 60 percent while vapor pressure was 105 psig, 724 kpa @ 100F) by the Chairman of the Company, was not within the limits considered by the company since 2010. (Within the limits of Maximum 40 percent Propane by weight percentage). Even though vapor pressure of 105 psig (724 kpa) @ 100F contained in the 18 litres premium hybrid gas cylinder mentioned in the letter was within the maximum vapor pressure considered by the company since 2010 (Maximum Vapor Pressure, gauge @ 37.8 Deg.C of LPG is 830 kpa), it was not within the maximum inlet pressure allowed by some kind of gas regulators available in the market. (600 kpa -6 bar).	All the regulators imported and distributed by Litro gas lanka limited are in line with a maximum pressure limit of (1430 psi) set out in LPG standards issued by Sri Lanka Standards Institute SLS 712:1998. Litro Gas lanka Ltd does not import or distribute any regulator having 6 bar inlet pressure rating. The inlet pressure rating of the regulators those are distributed by Litro gas lanka has always been 14 bar. The LPG imported and distributed by Litro gas lanka has always had the vapor pressure in between 420-830 max.kpa @ 37.8deg. C since 2010 and is in line with the specification criteria referred in SLS 712:1998 LPG standard.	The company should ensure that the LPG and related accessories are within the specifications specified by the relevant authorities and coordinate with the respective authorities in the event of any safety related issues.
(ii.)	It was not observed that the maximum inlet pressure allowed by some kind of gas regulators available in the market (600 kpa - 6 bar) was considered in determining the composition of LPG contained in the 18 litres premium hybrid gas cylinder.	Monitoring and regulating of the quality/ specification of LPG regulators imported into Sri Lanka by other importers does not come under the control of Litro Gas Lanka Ltd. if at all, this has to be standardized by Sri Lanka Standard Institute and regulated by import control department of Sri Lanka customs. As Litro gas lanka Ltd do not im port and distribute regulators having inlet pressure rating below 6bar, it is not relevant to us at all.	

	Also note that the 420-830 max kpa is the Litro gas LPG specification, which is well below the 14 bar inlet pressure rating of the regulators imported and distributed by Litro gas lanka Ltd.
(iii.) Notwithstanding the specification of LPG specified for 18 liters premium hybrid gas cylinder by the above mentioned letter, composition of LPG which was imported during the period from April 2021 to October 2021 (the period of distribution of 18 liters gas cylinder to the market) was within the limits of minimum 25 percent to maximum 40 percent Propane and the balance 75 percent to 60 percent Butane by weight percentage except one shipment arrived on 17 May 2021. It was observed that quality of LPG (including the composition of LPG) contained in 18 liters gas cylinders produced using LPG contained in Sphere B and C from 17 May 2021 to date which LPG filled to the said Spheres on 17 May 2021 had reduced to significant level, had not been measured.	We have followed the internationally accept blending tool, which inherited to us from shell petroleum, when this company had been under their ownership from year 2000 to 2010 and had been used to calculate the approximate final compositions many times in the past. The accuracy and reliability of the process has been well proven in examples discussed under 2.8.1 to 2.8.4 of this report. Therefore, the quality of the product contained in sphere B and C was assured by the ratios calculated by using the same blending tool. However, for the verification of the above assumption, we requested and obtained the quality reports for the final mixtures of sphere B and C by following the internationally accepted norm of calculating the hydrocarbon composition of blended mixtures from Geo Chem lanka pvt ltd using the sample test reports of the initial LPG parcels, which were used for blending. There is no procedure or requirement to check the composition on recurrent basis after initial mixing, since the lord port and discharge port tests are within the required amounts for all the following parcels. Therefore, no further testing is required. Therefore, all the product stored and issued for cylinder filling from

	sphere B and C are fully in compliance to the requirements.	

(d) LPG Filling Process to the empty cylinders

(i.) An operational manual for the filling process of the filling plant at Kerawalapitiya had not been submitted to the audit.	The operational manual had been submitted along with the answer to the audit report.	The company should submit the requested information during the audit to ensure effective audit.
(ii.) Any identification system had not been introduced by the company to trace the refilled gas cylinders which are distributed to the market in order to withdraw the gas cylinders from the market at any issue on the quality of LPG contained in the cylinders.	Steps are being taken by the procurement department to introduce a new shrink seal of which the bottom part is marked with batch number and it will remain with the cylinder until it returns to the filling plant for the next filling.	The company should establish proper identification system to trace the refilled gas cylinders which are distributed to the market in order to withdraw the gas cylinders from the market at any issue on the quality of LPG contained in the cylinders to ensure customer safety.
(i.) It was not observed that a gas leakage from the valve of the gas cylinder had been checked by an acceptable scientific method at the filling plant in Kerawalapitiya up to November 2021. (ii.) It was not observed that vapor pressure of the gas cylinder had been checked by sample basis up to November 2021. (iii.) Gas leakage of the body of cylinder is checked using the water bath. However, some instances of having a gas leakage of the body of cylinder may not be detected due to human errors.	The Electronic Gas Detector is in place for this purpose. It is a part of the filing plant package we received from the plant manufacturer. This was practiced since the 1999 shell gas period. The kerawalapitiya filling plant was established in 2013. The original plant consisted of the same machines in each filling line. These machines were scientifically designed for the LPG industry and operating to date.	The company should improve the quality and safety checks of the filling plant to improve safety of the users.

(iv.)	Database for empty cylinders operated by the company had not been maintained in order to identify cylinders in batch wise including the information such as production year, refurbishment year, requalification year and disposal year.	Below documents are maintained to obtain the required information. 1. Production year – have the necessary records and all relevant information 2. Refurbishment year – marked on the cylinder. Litro maintain a record with the number of cylinder on each day. 3. Requalification year – marked on cylinder. 4. Disposal year- cylinder have not predetermined lifetime. As far as it is satisfied with requalification test it can be used.	The company should establish information system to obtain required information when required.
(v.)	Information of disposal cylinders such as production year had not been maintained. Disposal cylinders had been deducted from the oldest cylinders in the books without considering production year of the disposed cylinders.	Before the Shell Gas period, there were no proper records on cylinder population. Therefore, in the year 2000 Shell had done a survey to find out the cylinder population. Based on that result, the record was maintained up to now.	The company should establish proper procedure to identify cylinders before disposal and update the asset records accordingly.
(vi.)	Even though life time of cylinders before requalification and after requalification is 15 years, there was no any method to trace the total number of cylinders exceed life time before requalification and after requalification.	As per the operations procedure, Litro check visually each and every cylinder at the plant and segregate cylinders for requalification. The cylinder turnover ratio depends on customer usage. It is observed that cylinders returned to the plant are varying from one month to several years. We can do only estimation by analyzing a sample of the incoming cylinder to the plant.	The company should ensure that the cylinders are in the accepted quality at all the times and ensure the customer safety.

(vii.)	Even though life time of valve is 15 years, there was no any method to trace the total number of valves exceeded its life time.	Almost all the valves of our refill cylinders are less than 15 years old. On following occasions, we check and replace the valve. 1. When the cylinders are requalified – 2. When the empty cylinder in unloaded to the plant – the cylinder is removed for valve replacement after visual inspection 3. Post filling check – check at the electronic leak detector.	The company should ensure that the valves are in the accepted quality at all the times and ensure the customer safety.
(viii.)	There are 83 bulk customers transacted with the Company. However, only 31 agreements have received to the audit. Therefore, it was unable to confirm whether the Company has entered into agreements with remaining 52 bulk customers.	Balance agreements are available with the Finance and can check at any time.	The company should ensure that a valid agreement is existed with each and every bulk customer and ensure that those agreements were available for audit.
(e)	Computing the price for bulk and commercial customers, CP price is decided based on 30 per cent from propane and 70 per cent from butane. It was observed that actual CP price was higher than the said computed CP price at the instances of propane price was higher than butane price and propane composition of LPG which was imported was higher than 30 per cent. Consequently, actual imported product cost (IPC) was higher than considered IPC for deciding the price for bulk and commercial customers. It was further observed that propane price was higher than butane price in 10 months during the year 2021 and imported propane composition of LPG was higher than 30 per cent in some instances.	Commercial price always based on propane 30% and butane 70% as the composition throughout. Also only this year the propane cost has been higher. Not practical to pricing on each shipment.	The company should seek possibility of incorporating fluctuations of composition when deciding commercial as used in the conditions of the term tender.

(f.) As per the letter dated 02 February 2021 sent to the Chairman of the CAA, the company had requested a price revision of 12.5kg, 5kg and 2.3kg cylinder (Requested price was Rs.2,204, Rs. 882 and Rs. 419 respective for Colombo based on January and February 2021 cost elements) and as per the letter dated 26 March 2021 sent to the Secretary to Treasury, the company had suggested a price increase in the range of Rs.1,850 to Rs.1,900 with effect from 20 April 2021 in order to ensure the stability of the industry/company. Further, as per the letters dated 28 June 2021, 12 July 2021 and 11 August 2021 sent to the Chairman of the CAA, the company had requested a price revision highlighting the total loss of Rs. 6 billion before tax incurred from January 2021 to July 2021. Even though price revision had been requested for the domestic products as above, net discounts (Gross Loss) had been granted to bulk and commercial customers during the year 2020 and 2021 even the company has the authority for pricing on the supply of LPG to the bulk and commercial customers.	Commercial prices are based on the market and business situation and it revised in every month based on CP price, exchange rate and competitor price. However, commercial segment has made considerable profit during the period of 2020/2021. This segment performs as individual segment and always added positive profits to the overall company performance.	The company should employ a cost-based pricing method for the bulk and commercial customers to avoid losses to the company and earn sufficient contribution from those segments.

3.5 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
(a.) Disposal of Vehicles and scraped cylinders		
(i.) It was observed that approval of the board of directors had been given to dispose 19 vehicles and one vehicle on 22 September 2020 and 30 March 2021 respectively even the Government had imposed vehicle import ban by the Government Extraordinary gazette no. 2176/19 on 21 May 2020. It was further observed that the board of directors had resolved to approve and implement the new amendment of Vehicle Policy of the Company at its	No answer provided by the management.	The company should maintain integrity in carting out affairs of the company and should not allow outsiders to take advantage of the government policy decisions.

meeting held on 23 September 2020 and accordingly Staff vehicle loans for 23 officers with zero interest rate had been granted and 50 percent of those loans is waived off and job related vehicle loans for 33 officers with zero interest rate had been granted.		
(ii.) It was observed that 19 vehicles had been sold for Rs. 50,097,341 (without VAT) even those vehicles had been valued for Rs. 66,450,000. Therefore, a reduction in sales value compared to their valuation was Rs. 16,352,659. Further another vehicle had been sold for Rs.13,425,926 (without VAT) and it was Rs.1, 974,074 less than its valuation. It is doubtful to the audit whether the price increase in vehicles due to banning on vehicle importation imposed by the Government had been considered when disposing these vehicles.	No answer provided by the management.	
(iii.) A scraped cylinder stock with estimated weight of 196,923 kg had been sold for Rs.7,248,481 (Excluding VAT) on 04 March 2021 to a buyer who was the winning bidder of the previous disposal of scraped cylinder on 08 September 2020 at a rate Rs.65 per kg, without calling a fresh tender.	No answer provided by the management.	

3.6 Procurement Management

Audit Issue	Management Comment	Recommendation
(a.) As per the letters dated 10 May 2021 and 12 May 2021 sent by the Presidential Task Force for Economic Revival and Poverty Alleviation, the Company had been requested to address the additional requirement purchase of 21,000 Medical Gaseous Oxygen Cylinders in different sizes and Medical Gaseous Oxygen to build up stocks for emergency purpose considering the urgent	Procurement has followed the shopping procurement process under the emergency procurement method as approved by the company board of directors. Chairman and CEO have been given the authority to approve any finance cost within the budget of US$ 10 million. The line ministry	The company should follow the procedure stipulated in the government procurement guideline for emergency procurements and necessary approval shall be obtained

national requirement of the country due to the pandemic. The board of directors had approved to carry out this as a special project to supply Oxygen to the value approximately of USD 10 million advancing funds available in the company at the meeting held on 13 May 2021. Observations in this regard are as follows.

(i.) As per the section 3.8.1 of the government procurement guidelines relating to the Emergency procurement, a formal approval shall be obtained from the relevant authorities at the first available opportunity to initiate procurements exceeding the financial thresholds stipulated under guideline 2.14. However, a formal approval had not been obtained from the Cabinet of Ministers to initiate the procurement which value of the procurement was exceeding Rs. 500 Million.

(ii.) It was observed that approval of the Cabinet of Ministers for the procurement of more than 10 Million should be obtained for deviating from procurement procedure when it becomes necessary in very urgent and exceptional circumstances as per the procurement guideline 2.14.1. The company had not obtained such approval for deviating from procurement procedure.

(iii.) Without appointing a suitable procurement committee and technical evaluation committee and without selecting an appropriate procurement method as per the procurement guideline 3.8 or 2.14, procurement division had decided to purchase 4,930 Nos of cylinders filled with oxygen from the two suppliers.

clearly informed litro to use own funds for the oxygen project. Procurement decided to obtain quotations from the selected set of suppliers and issued PO based on the approval of chairman & CEO without appointing the formal TEC & PC.

Procurement reached the existing supplier who is willing to supply urgent quantities within a very short period of time. Price was compared with existing market prices in Sri Lanka at the time of purchasing; however, all the purchases have been done below the existing market price of medical oxygen cylinders in Sri Lanka.

Due to the quick response of litro, the expected supply of medical oxygen had been increased by the existing players. Therefore, this initiative supported the government to manage the medical oxygen supply at the time of pandemic.

whenever necessary to expedite the procurement.

(iv.)	Contrary to the procurement guideline 3.8, a written agreement had not been entered with the suppliers to procure 4,930 Nos of Cylinders.		
(v.)	Contrary to the procurement guideline 5.4.4, 62.5% advance payment amounting to Rs.10.15 million for 400 Nos of cylinders, 100% advance payment amounting to Rs.7.16 million for 200 Nos of cylinders and an advance payment amounting to USD 100,000 (Rs.20.3 million) for 4,330 Nos of cylinders had been paid without obtaining a guarantee.	Company did not obtain an advance payment guarantee due to the below reasons, - Considering the urgency of supplying medical oxygen cylinders to the hospitals, it was decided to issue the payment in advance with slight LC to keep the available stock allocated for litro. Advance guarantee was omitted to reduce the guarantee processing lead time and shorten the procurement lead time at large. - Litro puts trust on the supplier based on his previous behavior. The supplier was continuously supplying required items after the advance payment without a guarantee in history as well.	The company shall not pay advance payment without obtaining an advance payment guarantee.
(vi.)	It was observed that samples had not been obtained to check the quality of the product before awarding the contract for 600 Nos of cylinders.	Considering the urgency of timely delivery, samples were not obtained.	The company shall obtain samples to ensure the quality of the product prior to award the procurement.
(vii.)	Four hundred (400) Nos of Cylinders filled with oxygen had been delivered by supplier however that cylinders were not properly maintained and heavily used cylinders and it was not internally accepted standards. It was further stated that total estimated damage caused to the company due to the said negligent conduct of the supplier was a sum of USD 126,782 and the Company had requested to	The received medical oxygen was approved by the medical supplies division. The special TEC has recommended the received cylinders and validated accordingly. Though the supplier agreed to send 100 pcs of cylinders under FOC basis. It was decided not to purchase this quantity because litro doesn't have capanility to handle EXW	The company should take necessary actions to recover the loss borne by the company in this procurement.

settle the said amount from the supplier. The supplier had agreed to supplying 100 Pcs of 47 Liter capacity cylinders by the email dated 23 June 2021. However, the agreed 100 Nos of 47 Liter capacity cylinders or the requested compensation had not been received to the company to recover the loss of damaged products.	shipment from Singapore to Colombo and there were problems in the process of filling medical oxygen by litro.	
(viii.) Purchase order had been cancelled due to the delay of approvals from health authorities and other logistics arrangement which procurement division had requested. However, supplier did not accept the cancellation due to the cost incurred for logistics and filling expenses. Further, a letter of demand had been sent to the company on 08 November 2021 to recover their balance payment of USD 583,790 together with all costs/ charges incurred by them as at date of payment. Accordingly, it was observed that the company had already incurred a loss of Rs.20.3 million by the advance payment of USD 100,000.	As explained, procuring medical oxygen during the pandemic is not easy because the entire world demand for medical oxygen had been increased but the supply was limited. In addition to that litro was asked to keep safety stock on behalf of hospitals and we were compelled to procure medical oxygen on an urgent basis therefore, it was decided to pay the advance payment without delaying further. However, the approval process was delayed due to contradictions emerge due to the nature of the business. It is required to have proper business license to carry out medical oxygen supply to the government hospitals under the commercial nature. Therefore, it was decided to cancel the order. However still cylinders are ready to ship at the supplier's point if it is approved by the authorities and litro management team.	The company should consult appropriate authority and take necessary actions obtain the goods ordered or recover the amount paid to the supplier.
(b.) The procurement for supply of LPG for the two years period from 01 March 2020 to 28 February 2022. (i.) As per the clause 7(a) of the Schedule of Requirements in the tender documents, the CIF price shall be based on the Saudi	No answers provided by the management.	The respective authorities and company should promote ethical culture within the organization and improve internal control system in the

Contract Price (CP) of the month of Nominations for Propane and Butane plus freight and insurance charge per MT and as per the clause 14.2 of the Instructions to Bidders (ITB), any discount against any single item in the price schedule or discount as a lot can be offered by the bidder. Contrary to the above clauses, the qualified bidder had submitted the premium to the CP. [Financial bid of the qualified bidder was CP + 54 USD (as a premium to CP) + 52.9 USD (as freight and insurance charge).		company for enabling them to conducting procurement procedure in transparent manner.
(ii.) As per clause ITB 35.4 of the Bidding Data Sheet, in evaluating the Financial Bid, the Employer will determine for each Bid the Evaluated Bid Price by adjusting the Bid Price as per the applicable ITB clauses. The Purchaser reserves the right to accept or reject any variation, deviation, or alternative offer. Variations, deviations, alternative offers, and other factors that are in excess of the requirements of the Bidding document shall not be taken into account in Bid evaluation. Contrary to the provision, the premium to the CP which was quoted as a fixed rate other than CP for the two years period contract had been accepted.	No answers provided by the management.	
(iii.) According to the actual imported quantity of LPG from March 2020 to December 2021, USD 34,610,800.5 had been paid as premium to the CP. (640,940.75 MT X 54 USD) and it was approximately Rs. 6.72 billion based on average exchange rate of Rs.194.08 per USD.	No answers provided by the management.	

(iv.)	Board of directors had passed the resolution to extend the LPG Supply contract for two years (Previous contract was limited to one year) considering the matters including “it will give the Company more competitive rates for freight and insurance as the volume will be higher” at its meeting held on 03 October 2019 and it was ratified at the board meeting held on 27 December 2019. However, the above objective had not been achieved by extending the LPG supply contract for two years due to presenting and accepting the premium to the CP.	No answers provided by the management.
(v.)	There had been only one bid for final consideration in this procurement, even though 10 bidders have purchased bidding documents and four bidders had submitted their bids, final result had been received without proper competition which should have for a major supply of this nature.	No answers provided by the management.
(vi.)	Even though previous agreement made for the supply of LPG would be ended on 29 February 2020, procurement notice for the supply of LPG for the years 2020-2022 had been advertised on 20 October 2019. Also, bids had been opened on 04 December 2019 and final SCAPC meeting was held on 02 January 2020. Therefore, it was observed that there was not an opportunity for recall bids even at the situation where proper competition had not been created for finance bid evaluations due to time limitation.	No answers provided by the management.

4. Accountability and Good Governance

4.1 Appointments to the board

Audit Issue	Management Comment	Recommendation
A board member had been appointed as the managing director of the company by the Minister of Finance, Economy and Policy Development by the letter dated 20 January 2020. As per the letters dated 22 January 2020 and 13 February 2020 sent by the Chairman and the company Secretary of the Sri Lanka Insurance Corporation Ltd respectively, the above nomination for the appointment as a managing director was collaborated. Contrary to the nomination of the treasury, he was appointed as the Executive Director of the company by the board of directors at its meeting held on 21 February 2020. Further contrary to the above mentioned nomination of the Treasury who is 99.94 percent shareholder and the ultimate parent of the company, the former Chairman had been appointed as its Chief Executive Officer (Which is similar to the managing director) of the company at the said meeting held on 21 February 2020 contrary to the above nomination of the Treasury.	In a similar manner the articles provide that the board may from time to time appoint one or more of their body to be the holder of any executive office, with suitable fringe benefits including the office of managing director. A director appointed as the Managing Director/ CEO is subject to termination. As you are aware the main shareholder of LGLL and LGTLL is not the treasury its Sri Lanka Insurance Corporation Limited. Hence that is the reason the Ministry of Finance make nomination addressed to the chairman SLIC directly and the Board of Directors of SLIC at a duly constitute board meeting should decide and approve the same nomination and there after SLIC should communicate all the nominations to the board of directors of LGLL and LGTLL. The power and the authority in nomination of the chairman/ CEO is purely vested with the board of directors of company.	It is recommended a clear division of responsibilities at the head of the board and the head of the company operations to ensure a balance of power and authority in the board, such that no one individual has unfettered powers of decision to dominate the board to avoid contradiction with the principles of governance, ineffective decision making and effective functioning of the affairs of the company.