

## **Litro Gas Terminal Lanka (Private) Ltd - 2023**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Litro Gas Terminal Lanka (Private) Ltd (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observation 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 2023, 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 skepticism 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 Audit Observations on the preparation of Financial Statements

### 1.5.1 Accounting Policies

Audit Issue	Management Comment	Recommendation
The PPE policy of the Company is to record all the fixed assets purchases initially at the Capital WIP account and capitalized those assets at every quarter end of the year. However, the capital WIP accounts of the company include long non capitalized WIP amount of Rs 126.92 million as at 31st December 2023.	Management Comments had not been provided.	PPE capitalization policy should be disclosed in the financial statements and which shall be inline with the Accounting standard.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a.) PED 01/2015 dated 25 May 2015 and 01/2015 (ii) dated 14 January 2022.	Chief Financial Officer/Chief Operations Officer and any other officer who holds a post approved by Management Services Department and have been placed equal or above HM 1-1 category of any SOE will be entitled to draw a fuel allowance equivalent to 145 and 115 liters per month respectively.  However, the company had provided a monthly fuel allowance ranging from 200 liters to 600 liters exceeding above fuel limits for seven employees. Accordingly, an overpayment of Rs 1.75 million had been made for those officers, and the company had provided a fuel allowance of Rs. 301,648 per employee who was not eligible for fuel allowance in the year under review.	The Fuel allowance have been based on the Job Group of the employees, the role performed/related duty. The Company operations model requires staff to travel. The practice was applied since Shell Management. It is pertinent to mention that Litro Gas Terminal Lanka Pvt Ltd has been incorporated under the Companies Act No 07 of 2007 as such the decisions are made by the board of Directors.	The board shall adhere to the applicable laws and regulations in this regard and obtain prior approval of the Ministry of Finance for any deviations required.

<p>(b.) PED 01/2015 dated 25 May 2015 and PED 01/2015 (i) dated 27 October 2016.</p>	<p>An officer who is entitled to an official vehicle has the option either to use the official vehicle or to avail a monthly transport allowance of Rs. 50,000 and monthly fuel allowance applicable to the post. However, such officers shall not be provided with a driver or a driver allowance. Contrary to the circulars,</p>	<p>Vehicle allowance and fuel allocation are provided according to the job group and the related duty with approval of Board of Directors. This has been the structure followed which has been amended for inflation</p>	<p>The board shall adhere to the applicable laws and regulations and obtain prior approval of the Ministry of Finance for any deviations required.</p>
	<p>(i.) The company had provided a monthly transport allowance ranging from Rs. 171,600 to Rs. 360,360 for seven employees, and Rs. 15.36 million had been overpaid in the year under review. Further, monthly driver allowance totaling to Rs.0.6 million had been paid for two employees from the above-mentioned officers in the year under year review.</p>	<p>Few employees who requires job related vehicles are provided company maintained vehicles with the fuel allocation on the availability of the company owned vehicles. These employees are not paid a vehicle allowance. Providing vehicles to perform the day to day operations in order to perform the operations of the Company is Pivotal.</p>	<p>The board shall adhere to the applicable laws and regulations and obtain prior approval of the Ministry of Finance for any deviations required.</p>
	<p>(ii.) The company had provided a monthly vehicle allowance totaling to Rs. 6.09 million for ten employees who are not eligible for vehicle allowance in the year under review.</p>	<p>Vehicles allowances are based on the Job Groups and market rates of vehicles. The practice was applied since Shell Management. It is pertinent to mention that Litro Gas Terminal Lanka Pvt Ltd has been incorporated under the Companies act No 07 of 2007 as such the decision are made by the board of Directors.</p>	<p>The board shall adhere to the applicable laws and regulations and obtain prior approval of the Ministry of Finance for any deviations required.</p>

<p>© PED Circular 2/2015 dated May 25, 2015</p>	<p>Contrary to this circular and without valid policy document approved by the board, the company reimburses cost of purchase of mobile phones for seven employees for once in two years from the year 2020. The company had incurred Rs. 400,000 to buy seven mobile phones in the year 2023.</p>	<p>Mobile phones are provided to staff to perform their duties. The requirement is recommended by the functional head on the job role performed by the staff member and HR department issues same. In order to access these application, the mobile phone should be an Android or IOS mobile devices. In the future we are expected to develop cloud native application this too will require the Mobile phones to operate and will enable working from home during non-working hours which is a Litro as our operation are over 12 hours and runs on most holiday</p>	<p>The company should adhere to the applicable guidelines and obtain prior approval from the General Treasury for any deviations required.</p>
<p>(d) PED 01/2020 dated 27 January 2020 and PED 3/2015 dated 17 June 2015.</p>	<p>The maximum sitting allowance of a Non- Executive Director is Rs. 12,500 and he is only entitled to the sitting allowance. However, the Company had paid a monthly transport allowance of Rs. 100,000 for three Non-Executive Directors since 2020.</p>	<p>This has been approved by the board of Directors of the Company.</p>	<p>The company should adhere to the applicable guidelines and obtain prior approval from the General Treasury for any deviations required.</p>
<p>(e.) PED 04/2023 date 11 December 2023.</p>	<p>Commercial Corporations, Statutory Boards and Government Owned Companies, which have earned profits during the financial year 2022 and paid incentives, can, have proposed a bonus of Rs. 20,000 per employee. However, the Company had paid a bonus of Rs. 100,000 per employee</p>	<p>Year-end bonus has been paid since Shell period and up to the year 2022 the amount was 60,000 from the year in review board of directors has decided (approvals shared</p>	<p>The company should adhere to the applicable guidelines and obtain prior approval from the General Treasury for any deviations</p>

and the total overpaid bonus in the year under review amounted to Rs.1.36 million.

already) to increase it up to 100,000 to the all employees based on the company financial performance.

It is pertinent to mention that Litro Gas Terminal Lanka Pvt Ltd has been incorporated under the Companies act No 07 of 2007 as such the decision are made by the board of Directors.

(f.) PED Circular No.01/2021 Issued On 16 November 2021,Operation Manual for State Owned Enterprises (SOEs) Section 3.1

All state owned enterprises (SOE) must seek the approvals of the General Treasury for their cadres and remuneration. However, Company had not complied with the requirement

The structure and basis has been continuing since the Shell Management Period. In addition, we have submitted the relevant details to the director general department of management service letters dated respectively 14th December 2019 and 20th November 2022.

The company shall obtain the approval of the General Treasury for their cadres and their remuneration.

(g.) PED Circular 04/2022 dated on 08 August 2022 and 01/2024 dated On 28 February 2024

Contrary to the above circular The board of directors had resolved to approve and implement the interest free Staff Relief Loan Policy for the staff of the company from 01 May 2018 and amended in 2022 and 2023 without taking prior approval from the General Treasury. Further the Company introduced new staff relief loan category named as housing loan and granted 1.7 million during the year 2023.

According to the Company's normal practise, board approvals are not obtained for the company policy and procedures. The board approvals are obtained for the company Annual Budget including all the cost mentioned above already.

The approval from the General Treasury shall be obtain for the new allowances.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 1,540.4 million and the corresponding profit in the preceding year amounted to Rs. 582.4 million. Therefore an improvement amounting to Rs.958 million of the financial result was observed. The reasons for the improvement are an increase in revenue from contracts with customers of Rs. 554.7 million and an increase in finance income of Rs. 474.1 million for the year under review.

### 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 five (05) years with the percentage of increase or decrease are as follows.

For the year ended 31 December	Amount Rs.Million					Percentage of changes %				
	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
Revenue from contracts with customers	1,999	1,444	1,616	1,508	2,064	38.4	-10.6	7	-27	1
Cost of sales	319	319	316	327	316	0	0.9	-3	3	-3
(Loss)/profit from operation	1,169	656	924	918	1,748	78.2	-29.0	1	-47	3
Finance income	994	520	304	517	702	91.2	71.1	-41	-26	14
Finance expenses	2.7	17.2	28	83	135	-84.3	-38.6	-66	-39	-

### 2.3 Ratio Analysis

Key ratios compared with the preceding five (05) years are as follows.

Year	2023	2022	2021	2020	2019
<b>Ratio</b>					
Net Profit Ratio(PBT) (%)	108	80	76.04	95.19	104.22
Return on Capital Employed (ROCE) (%)	16	9.60	9.60	12.27	18.47
Return on Equity (%)	12.15	4.7	8.99	9.61	14.77
Return on Asset (%)	14.78	8.49	9.18	11.83	17.67
Asset Turnover (No of times)	13.67	10.42	15.27	23.43	43.92
Current ratio (No of times)	5.60	1.14	4.81	13.15	14.21
Quick Ratio (No of times)	5.59	1.13	4.80	13.12	14.19

### 3. Operational Review

#### 3.1 Operational Activities

##### Audit Issue

The company had been established to provide bulk storage facilities for petroleum liquid gas for the Litro Gas Lanka limited and it had recorded a significantly high gross profit margin (based on Cost of Sales) of 525 per cent and 352 per cent in the year 2023 and 2022 respectively and a considerable increase of gross profits by Rs.554 million in the year under review as compared with the preceding year. The throughput fee of USD 51 per ton of gas decided by the board paper LGGTTL/AOB/03/OCTOBER/2019 on 28 October 2019, had been reduced to USD 20 in the year 2023. However, the action had not been taken by the company to reduce the operating cost of the Litro Gas Lanka limited by further reducing the liquid gas bulk storage facility charges and support to reduce the gas price and ease the inconvenience caused to the gas customer of the country.

##### Management Comment

The company has taken significant steps to reduce operational costs for Litro Gas Lanka Limited through the reduction of the throughput fee. We will continue to evaluate and implement measures that support cost reduction and customer convenience, while ensuring the company's long-term viability and operational excellence. It is apparent that the storage capacity needs to be expanded to ensure uninterrupted supply with the current increasing demand of the product. The investment for this is substantial. As such before making any decision to further reduce cost this issue needs to be addressed.

##### Recommendation

The company should take necessary actions to improve operational efficiency in order to reduce operating costs.

#### 3.2 Idle or underutilized Property, Plant and Equipment

##### Audit Issue

The Company had paid Rs.500 million to Sri Lanka Land Development Corporation in 2021 as part of the total lease rental for a 22 acres' land and a building in Kerawalapitiya, for the purpose of construction of an oxygen filling station and/ or to utilize as an additional LPG operation and storage expansion project or any other related activities. However, the cabinet approval was not being granted to the Sri Lanka Land Development Corporation to lease the above land for the Company up to the year under review due to on-going restructuring process of the Company. Therefore, the company had not been derive any benefit from the above payment up to now.

##### Management Comment

The payment to SLLDC was made with the intention of securing the land for strategic projects essential to the company's operations. Despite the delay in Cabinet approval due to the ongoing restructuring process, steps have been taken to ensure that the land lease is secured and the company derives the intended benefits. The situation has been managed proactively, with continuous communication and negotiation with SLLDC and the Ministry of Finance. In addition, new plans of other Company facilities to be placed in this facilities are in progress. A details of such will be provided once it is finalized and approved.

##### Recommendation

The company shall use this property for the intended purpose or any other suitable purpose with the approval of the relevant authorities.



### 3.3 Procurement Management

#### Audit Issue

In accordance with the instructions mentioned in guidelines 4.2.2 and 4.2.3 of the Government Procurement Guidelines and the related structure of the Procurement Code, a procurement entity should be prepared for the expected procurement activities through the procurement plan. And also, a procurement time schedule should be prepared, describing, in chronological order, the steps of each individual procurement action from the point of commencement until its completion. However, the company had not prepared a procurement plan and procurement time schedule in line with the above guidelines

#### Management Comment

The procurement plan and time schedule for the procurements valued at more than 50 million rupees (DPC major) have been submitted to the line ministry. The entity is not preparing a procurement plan for the shopping level procurements.

#### Recommendation

Company shall prepare procurement schedule by chronological order describing the steps of each procurement action..

### 3.4. Asset Management

#### Audit Issue

Property Plant and equipment represent 41% from total assets with book value of Rs. 6.96 billion and net value of Rs. 5.98 billion of LGTLL. But the company hasn't conducted any asset verification or Board of Survey to verify physical existence of Fixed Assets as at 31 December 2023.

#### Management Comment

Management comments had not been provided

#### Recommendation

The company should implement an annual asset verification to ensure Robust Asset Management System.

## 4. Accountability and Good Governance

### 4.1 Appointments of the Board

#### Audit Issue

The Chairman nominated by the Line Ministry had been appointed by the Board of the Sri Lanka Insurance Corporation (the parent company) and he had also been appointed by the board of directors of the company as the Chief Executive Officer in the year 2019. According to Guideline 2.2.2 of Guidelines on Corporate Governance for State Owned Enterprises dated 16 November 2021, the Chairman is

#### Management Comment

The decision to appoint Mr. M S G Peiris as both Chairman and CEO of LGTLL was driven by the need to address an urgent operational crisis and was made in the best interest of the company and the nation. The presence of an Independent Non-Executive Director further reinforces our commitment to maintaining good governance standards.

#### Recommendation

It is recommended to separate the two powerful conflicting roles of chairman and CEO.

the head of the Board of Directors and according to Guideline 2.5.1, the responsibility of the CEO is to prepare strategic, tactical and operational plans. Having the same person holding both these positions were against good governance practices.

#### **4.2 Audit Committee**

	<b>Management Comment</b>	<b>Recommendation</b>
The Audit Committee should meet at least once in three months and report its recommendations to the Board of Directors. However, only one Audit and Management Committee Meeting was held for the Company during the year under review.	Despite not meeting the minimum requirement, the focus on covering the audit plan has been achieved during the year 2023. However, the requirement to have a minimum of four audit committee meetings will be fulfilled during the year 2024.	The Audit Committee shall meet regularly and oversight the finance function and the other related matters of the company.