Ceylon Petroleum Storage Terminal Limited - 2022
----

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Petroleum Storage Terminal Limited ("Company") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Emphasis of Matter

I draw attention to Note 20.1 (b) to the financial statements which describes the uncertainty related to assessment raised by Inland Revenue Department amounting to Rs.791 million. My opinion is not qualified in respect of this matter.

1.3 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.6 of this report.

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 qualified opinion.

1.4 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.

1.5 The Auditor's Responsibilities for the Audit of the Financial Statements

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.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Non-Compliance with Sri Lanka Accounting Standards

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
a)	According to the paragraph 32 of LKAS 01, an entity shall not offset assets and liabilities. However, the Company had offset 03 credit balances in other receivables accounts amounting to Rs.3 million against other receivables and 50 debit balances in other payables accounts amounting to Rs.111.3 million had been offset against other payables in the financial statements for the year under review.	**Customers credit balances -** There are 3 credit balances amounting to Rs.3,005,896 appeared under other receivables debtor's balances as at 31st December 2022. These balances represent the advance payments received from respective debtors and the relevant sales invoice (for lab testing and scrap sales) will be raised only after the completion of work on the following month. **Creditors debit balances –** The total vendor debit balances of Rs.111,040,705 of 42 creditors as at 31st December 2022 mainly comprised of advance payment of Rs.80,349,157 paid to Sri Lankan Railways for railway line renovation work which is still under construction and Rs,16,359,491 advance payment given to Indo East construction Ltd. for construction of three storage tanks, which will be set off against the future final payments due to contractors.	Should be complied with accounting standards.

b)	According to the paragraph 32 of LKAS 01, an entity shall not offset income and expenses unless required or permitted by a standard. However, the Company had deducted staff loan impairment gain amounting to Rs.9.5 million from administrative expenses instead of presenting as other income in the statement of comprehensive income for the year under review.	Rs.9,483,126 represent the reversal of impairment of staff loans which was recognized as an allowance for impairment of staff loans during the previous years as an administrative expense. Accordingly, reversal was recognized as an administrative expenses.	-Do-
c)	The Company had not recognized differed tax asset of Rs.274.7 million relating to the unused tax loss of Rs.915.3 million for the year under review in terms of the paragraph 34 of LKAS 12 – Income Taxes.	The omission was inadvertently missed out in preparing the differed tax calculation for the year 2022. Request permission to resubmit the financial statements, deferred tax adjustments relating to the tax loss for the year will be included.	-Do-
d)	Fully depreciated assets valued at Rs.8,391.6 million which comprises 24,175 items are being used by the Company without reassessing the useful economic lifetime of those assets and accounted them contrary to the paragraph 51 of LKAS 16. Further, the Company had not revalued its assets since the inception of the Company in 2003 and a proper revaluation policy was not established for this purpose.	CPSTL is planning to obtain the necessary approvals from Ministry & Board of directors w.r.t. valuation of fixed assets in the near future.	-Do-
e)	Sum of Rs.36.8 million worth of property plant and equipment had been presented in financial statements for the year under review as working progress despite the constructions activities of those assets were completed and available for use as at 31 December 2022 and depreciation of such assets had	CPSTL will capitalize cost of capital projects once the project completion certificate or confirmation given by the Engineering function for overall completion of the project at the time of hand over of responsibility to user function for commencement of operations or utilization of capital assets. During the year 2022, sum of Rs.1,817,970,183 worth of construction works have been capitalized in the books of	All the completed assets should be capitalized.

not been started as per the paragraph 55 of the LKAS 16.	the accounts upon receipt of work completion certificate from Engineering function. Out of the Rs.36,878,990 working progress balance, an amount of Rs.30,984,684 was capitalized during the year 2023, upon receipt of project completion certificate from Engineering function. The remaining balance of Rs.5,894,306 is relevant to the boundary wall renovation project which is partially completed as of today.	

1.6.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
a)	Disposal gain of Fuel Tanks amounting to Rs.4.1 million which relating to the previous year had been erroneously recognized in the year under review and wrong Journal Entries had been created as to overstating the operating expense and Sundry Creditors in the comparative balances of the previous year. Further, investing cash flows for the year under review had been overstated by same amount.	The error correction in the accounting for disposal of five storage tanks for value of Rs.7,663,000 was recorded in the current financial year, which had omitted in the respective financial year 2021. .	Journal Entries should be made accurately.
b)	The Company had identified that unrecognized own use fuel consumption for the year 2021 amounting to Rs.12.8 million by restating 2021 comparative information. However, the Company had erroneously restated other operating expenses instead of restating direct expenses. Accordingly the gross profit for the year 2021 had been overstated by that amount.	The accounting entries for own use fuel adjustment relating to the previous year was adjusted as other operating expenses during the current financial year.	Relevant category of expenses should be restated.

1.6.3 unreconciled balances and long outstanding receivables

	Audit Issue	Management Comment	Recommendation
a)	According to the financial statements of the Company, amount receivable from CPC was Rs.8,000.3 million. However balance confirmed by CPC was Rs.7,458 million. Accordingly Rs.542.3 million difference was observed between those two balances and a long outstanding receivable balance of Rs.110.2 million was observed therein.	Several discussions had with CPC & CPSTL officials during the year and resolved some of the major differences. Action have been taken to resolve the balance remaining disputed intercompany transactions subject to obtaining the necessary Board approvals.	Action should be taken to recover and reconcile intercompany balances.
b)	According to the financial statements for the year 2022 of the Company, amount payable to the CPC was Rs.836.2. million. However, in the financial statements of the CPC, amount receivable from CPSTL was Rs.1,247 million. Accordingly, an unreconciled difference of Rs.410.8 million was observed between those two balances.	There are several accounts maintained by CPC for various purposes. The details of combination of CPC balance for total value of Rs.1,247,065,000 is needed to provide the more details and reconciliations of current accounts	Action should be taken to settle and reconcile intercompany balances.
c)	There was other receivable balance (without related parties) amounting to Rs.97.3 million as at the end of the year under review, out of that a sum of Rs.7.6 million relating to 12 other receivables accounts had been remained unrecovered for over 05 years.	Most of the balances are carried forward from prior to SAP implementation period in year 2010. Maximum efforts have been taken to recover these outstanding balances. The likelihood of recoverability of these balances are very remote. Audit & Management Committee has recommended to write off these long outstanding balances with the prior approval from the Board of Directors.	Proper action should be taken to recover the long outstanding receivable balances.

1.7 Accounts Payable

Audit Issue	Management Comment	Recommendation
According to the financial statements of the Company, trade and other payable balance amounted to Rs.2,041.2 million as at the end of the year under review, out of that a sum of Rs.24 million relating to 182 payable accounts had been remained unsettled for over 05 years.	The long outstanding payable balance of Rs.24,080,438 over 5 years was mainly comprised of the hired bowser transporters payable balances and 76% of such long outstanding vendor balances were cleared subsequently in the year 2023.	Proper action should be taken to settle the liabilities.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Guideline 2.3 of Guidelines on Corporate Governance for State Owned Enterprises.	The finalized strategic plan together with the action plan and annual budget had not been submitted by the Company to the Ceylon Petroleum Corporation (Parent Company).	Strategic plan (Corporate plan) submitted to the approval of the Board of Directors on January 2023 and pending approval. Action Plan was submitted to the Ministry.	The Company should comply with relevant guidelines.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.704 million and the corresponding profit in the preceding year amounted to Rs.1,578 million. Therefore a deterioration amounting to Rs.2,282 million in the financial result was observed. The reason for the deterioration is decreased in income by Rs.4,843 million due to decrease in number of fuel litters handled by the Company.

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 year with the percentage of increase or decrease is mentioned below.

Description	For the Year ended 31 December		Variance	
	2022	**2021**	**Increase/ (Decrease)**	**Percentage %**
	Rs. Million	Rs. Million	Rs. Million	
Revenue	9,433	14,276	(4,843)	33.9
Direct Cost	6,806	8,369	(1,563)	18.7
Other Operating Income	1,309	706	603	85.5
Other Operating Expenses	-	174	(174)	100
Administrative Expenses	4,925	5,061	(136)	2.7

2.3 Ratio Analysis

Key Ratios of the Company for the year under review as compared with the preceding year are shown below.

Ratio	2022	2021
Profitability Ratio		
Gross Profit Ratio (GP) (%)	27.9	41.38
Operating Profit Ratio (%)	(10.49)	9.64
Net Profit/ (Loss) Ratio (NP) (%)	(11.2)	8.2
Liquidity Ratio		
Current Ratio (Number of times)	5.36:1	5.7:1
Quick Ratio (Number of times)	5.06:1	5.46:1
Investment Ratio		
Return on Assets (ROA) (%)	(3.2)	3.4

3. Operational Review

3.1 Uneconomic Transactions

The Company has introduced number of loan schemes to its staff such as Motor vehicle Loans, Housing Loans, Distress Loans, Thrift Society Loans, Special loan, Disturbance loans, advances etc. The total loan outstanding at the end of 31 December 2022 was Rs.3,148 million. The following observations are made in this regard.

Audit Issue	Management Comment	Recommendation
According to the information available with the audit, a proper policy for providing loan facilities to staff and recovery procedure had not been established and maintained by the Company. Therefore the default loan balances at the end of the year under review were Rs.32 million.	CPSTL has taken several stern actions to reduce the risk of employee loan default in the future. These actions include Introduction of decrease term assurance policy and property mortgages for housing loans, requiring guarantors for all other loans.	The Company should expedite the loan recovery process.

3.2 Management Inefficiencies

The main business of the Company was to store the fuel stocks owned by CPC and LIOC through 02 main terminals and 11 sub-depots and distribute them to the authorized dealers and customers spread across the country as per the instructions of those companies. The following observations are made in this regard.

Audit Issue	Management Comment	Recommendation
Main activities in the process of supplying of petroleum products, such as accepting fuel orders from dealers and consumers, verifying the credit limits and related pre-qualifications, issuing invoices, collecting cash from dealers, which should have been handled by the marketing entities (essentially by CPC), had been carried out by the Company. Therefore, it was observed that the Company had been engaging in the tasks outside its main scope of storage and distribution of petroleum product. Further, such activities were not covered by the Common User Facilities Share Holder's Agreement dated 30 December 2003 entered into among the Government of Sri Lanka (GOSL), the CPC and the LIOC.	Beginning from Jan 2023 onwards, CPC has implemented new online/real time fund transfer banking facility system to dealers & consumers and done away with the cash/cheque collection on sale of bulk fuel through island wide operations. Sales orders accepted at Muthurajawela order's function was gradually stopped by CPSTL and transferred to the Kolonnawa Orders function to centralize the order processing activities other than the Bulk depots operations. Special request made from CPC to take over their Kolonnawa/ Muthurajawela bulk fuel sales order processing activities by CPC Marketing department in the future, which can be easily implemented with the help of the existing SAP ERP system facility.	The Company should act in accordance with established objectives.

3.3 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
a)	As reiterated in previous reports, it was observed that the Shareholders Agreement and Share Sales Purchase Agreement for the common user facility among CPC, LIOC and CPSTL had expired on 31 December 2008. However, the Company had not taken action to extend the agreement for a further period of time or to enter into a new agreement. As a result, the pricing formula used for the purpose of determining the throughput charges, transport charges including slab recoveries with the consent of all the related parties had not been revised after 2011.	Steps have been taken to revise the throughput rates and impose a minimum throughput commitment. Board of Directors approval is pending for proposed 25% rate increase since Feb. 2023. CPSTL board of directors has given approval to enter into new agreements with new players to provide the Common User Facility services for storage & distribution of bulk fuel as per the government policy.	Action should be taken to renew the relevant agreements.
b)	According to the Section 03 of the Settlement Agreement dated 05 January 2007 between the Government of Sri Lanka and LIOC, the delivery of petroleum products by LIOC from its China Bay installation had been limited to a maximum of 5 per cent of the Country's throughput of petroleum products, and the delivery of petroleum products by CPC had been limited to a maximum of 5 per cent excluding the deliveries from Sapugaskanda Refinery. However, a proper system to monitor the delivery process had not been established by the Company. Therefore, there was a risk of losing of income from throughput charges of the Company.	The restriction imposed in Section 03, 04 & 05 of the settlement agreement superseded the new agreements signed by GOSL with the entrance of three new players during the month of June 2023. CPSTL will sign new shared services agreements with three new players in addition to the two existing stakeholders in the near future to prevent the risk of losing income in the future.	A formal mechanism to monitor the compliance of conditions should be established.

c)	According to the agreement between Ceylon Petroleum Corporation and Ceylon Petroleum Storage Terminals LTD entered into on 21 of May 2019, there is no provision included in the agreement to charge Demurrage Charges and Leakage Losses suffered by CPC from CPSTL. However, Demurrage charges amounting to Rs.486.3 million and Leakage Loss amounting to Rs.115.3 million were charged by CPC from CPSTL in the year 2022 without a mutual agreement.	CPC has taken unilateral decision on its own without any prior written approval nor documentary evidence to prove that demurrages occurred due to failures at CPSTL operations to claim such charges without conducting any investigation.	Action should be taken to enter in to a new agreement including provisions to recover Demurrage Charges and Leakage Losses.
d)	The ownership of 09 bulk depot lands are vested with Sri Lanka Railway Department and the Company uses these lands under lease basis. The lease agreement with Sri Lanka Railway Department to use these lands had been expired on 31 December 2013 and Company uses these lands continuously after expiry of lease agreement neither entering in to a new agreement nor renewing exiting agreement. However the Company had not made relevant disclosures in the financial statements in this regard.	Arrangements have been made to sign the new lease agreements with CGR and pay lease rentals after the revision of the lease rentals based on the valuation report given by Government Valuation Department.	Action should be taken to enter in to a new lease agreement.

3.4 Procurement Management

	Audit Issue	Management Comment	Recommendation
a)	The Company had commenced to construct new pump house in Zone 06 Kollonnawa Oil Terminal in the year 2018. Instead of constructing pump house as single package of construction, Company had initially sliced this work in to 05 separate constructions such as construction of pump house building, construction of pipe support, electrical fittings, yard development and make simplex basket strainer and the Company had awarded these 05 constructions to 05 separate contractors. The construction activities of construction of pump house building, electrical fittings and yard development	Construction of pipe supports and related structure could start after completion of the “Construction of product pump house" and “Construction of pipe trench and yard development”. In the meantime, the bids were called for construction of pipe supports and related structure on 26.06.2020 and it was unable to select a successful bidder and bids were recalled on 08.02.2021. Even recalling the bid, a successful bidder was unable to	Prompt action should be taken to complete construction activities.

had been completed during the year 2019 and 2020. However it was observed in site visit that construction of pipe support had not been completed and procurement activities of construction of pipe line connection from pump house to filling gantry and tank farm had not been initiated up to 31 May 2023. As a result, pump house is not in a condition for intended use. However, a sum of Rs.115.2 million had been incurred for this construction up to the end of the year under review.	select. Hence, bids were re-called for the third time on 19.08.2021 and a successful bidder was selected. The site was handed over to the successfully selected contractor on 29.12.2021. While contractor is performing the job, the price hike of the country affected with the highly appreciation of the USD against Sri Lankan Rupees in March 2022. The contractor requested an actual price escalation and as per the tender condition, CPSTL could not allow the requested price escalation by the contractor. Therefore, the contractor stopped work on 12.12.2022. After 28 days the contract was terminated by CPSTL and the process is in progress. However, using CPSTL own labour force related pipeline has been scheduled to started by 20.06.2023.	
b) The Company had not followed Government Procurement Guidelines when selecting outside transporters (Bowsers). Accordingly, transparency of procurement process used for hired bowsers was doubt in the audit.	Arrangements have been made to call for tenders to transport bulk fuel from Kolonnawa to Kurunegala LDB as a pilot project.	The Company should follow Government Procurement guidelines.

3.5 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
Fuel consumption of the vehicles had not been regularly checked and monitored by the Garage Function of the Company, and vehicle log books had not been maintained to record repairs and maintenance of vehicles. Therefore, it was observed that the internal control over the vehicle administration was not at satisfactory level.	Fuel consumption check periodically done only for the fuel tank bowsers except other vehicles. Automobile function maintains vehicle file for every vehicle. The vehicle file includes; ● Vehicle repair cost ● Vehicle service cost ● Accident repair cost	A strong internal control system for vehicle administration should be established.