

Report of the Auditor General on Head 150 – Ministry of Petroleum Resources Development - Year 2015

The audit of the Appropriation Account, and the Reconciliation Statements including the financial records, books, registers and other records of the Head 150 –Ministry of Petroleum Resources Development for the year ended 31 December 2015 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 21 July 2016. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing, maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Ministry amounted to Rs. 4,843.98 million and out of that, a sum of Rs. 4,743.80 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provision made for the Ministry amounted to Rs. 100.17 million or 2.07per cent. Details appear below.

As at 31 December 2015

Expenditure	Net Provision	Utilization	Savings	Savings as a Percentage of Net Provision
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	4,653.98	4,652.78	1.20	0.03
Capital	190.00	91.03	98.97	52.09
Total	4,843.98	4,783.81	100.17	2.07

2.2 Advance Account

2.2.1 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account Item No.15001 and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
3.50	2.60	0.02	5.23	20.00	7.85

2.3 Imprest Account

The Imprest balance of the Imprest Account No. 7002/0000/000/0437/0015/000 under the Ministry as at 31 December 2015 amounted to Rs. 1.09 million.

2.4 General Deposit Account

The balances of the General Account No. 6000/0000/00/0018/0086/000 under the Ministry as at 31 December 2015 amounted to Rs. 0.23 million.

2.5 Audit Observation

The Appropriation Account, the Revenue Account and the Reconciliation Statement of the Ministry of Petroleum Resources Development for the year ended 31 December 2015 had been satisfactorily prepared subject to the Audit Observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant Audit Observations appearing in that Management Audit Report appear in paragraph 3 of this report.

3. Material and Significant Audit Observations

3.1 Non – maintenance of Registers and Books

The Ministry had not maintained a Registers on Fixed Assets on Computers, Accessories and Software in terms of the Treasury Circular No. IAI/2002/02 of 28 November 2002.

3.2 Appropriation Account

3.2.1 Budgetary Variance

The entire total net provision of Rs. 4,070,000 made for 04 Objects had been saved.

3.3 Imprest Accounts

Ad hoc Sub - imprests totaling Rs.120,000 had been granted in 09 instances to 04 non – staff grade officers contrary to the provisions in the Financial Regulation 371(2) as amended by the Public Finance Circular No. 03/2005 of 14 July 2015.

3.4 Revenue Account

The functions relating to the preparation of Revenue Estimates, the collection of revenue, the accounting for revenue and the presentation of Revenue Account for the Revenue Code No. 20.03.02.21 had been devolved on the Secretary to the Ministry as the Revenue Accounting Officer. The following deficiencies were observed during the course of an audit test check of that Revenue Code.

- (a) A Revenue Estimate for the year 2015 in respect of the Revenue Code had not been prepared in accordance with the Revenue Estimates for in the year 2015. Revenue amounting to Rs. 21.15 million had been collected during the year 2015.
- (b) The half yearly statements of arrears of Revenue had not been presented to the Auditor General on or before the specified date in terms of the Financial Regulation 128(2).
- (c) Even though a new agreement for the years 2013 to 2018 had been signed by the Ceylon Petroleum Corporation with a company in connection with the import of lubricants, the Ministry had failed to recover the lubricant licence fees amounting to Rs. 5 million receivable in respect of the years 2013, 2014 and 2015 and that had not been shown in the Revenue Account as arrears of revenue.
- (d) A register containing the particulars of the Institutions which had entered into agreements with the Ministry in connection with the import of lubricant had not been maintained by the Ministry.

3.5 Reconciliation Statement of the Advances to Public Officers Account

The amount – test –check of the Reconciliation Statement of the Advanced to Public Officers Account Item No. 15001 as at 31 December 2015 revealed not the Ministry had failed even by the end of the year under review to recover the loan balances that remainetotalledRs. 74,634 that remained recoverable from a Driver of the Ministry who had vacated the post in the year 2012.

3.6 Good Governance and Accountability

3.6.1 Annual Procurement Plan

Provision amounting to Rs.172 million under the Annual Budget Estimates, and Rs.18 million under the Supplementary Budget Estimates had been approved by Parliament for the procurement of goods and services by taking action in accordance with the Government Procurement

Guidelines. The Procurement Plan in terms of the National Budget Circular No.128 of 24 March 2006 had not been prepared for the utilization of the provision made.

3.6.2 Internal Audit

In terms of the Financial Regulation 133 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka and the Treasury Circular No. IAI/98/02 dated 03 August 1998, an Internal Audit Unit headed by a Senior Accountant who is responsible to the Chief Accounting Officer on the Internal Audit activities relating to the scope of every institution should be established. Nevertheless, an Internal Audit Unit of the Ministry had not been established in the year 2015.

3.6.3 Audit and Management Committee

The Audit and Management Committee had held only one meeting during the year 2015.

3.6.4 Annual Performance Report

Even though the Ministry should table the Annual Performance Report in Parliament within 150 days from the close of the financial year in terms of the Public Finance Circular No.402 of 12 September 2002, that report had not been tabled in Parliament even by 05 July 2016.

3.7 Assets Management

The following deficiencies were observed during the course of audit test checks of the assets of the Ministry.

(a) Conduct of Annual Boards of Survey

Twenty item of goods of 9 categories identified as a shortage in the Report of the Board of Survey as at 31 December 2015 had not been recovered from the parties responsible.

(b) Assets given to External Parties

Four categories of goods valued at Rs. 407,900 and 102 items of goods of 22 categories of which the value had not been indicated given to a former Deputy Minister had not been handed over to the Ministry.

(c) Irregular use of Assets belonging to other Institutions

In terms of paragraph 3.3 of the letter No. CA/1/17/1 dated 14 May 2010 of the Secretary to the President, whenever the motor vehicles of a Public Corporation or a Statutory Institution or a State Company are deployed for the use of a Minister or a Deputy Minister the prior approval of the Ministry of Finance and Planning should be obtained. Nevertheless, the Ministry had obtained 63 motor vehicles from the Ceylon Petroleum Corporation in the year 2015 without such approval.

3.8 Implementation of Projects from Local Financing

Instances of projects abandoned without commencing, Project abandoned without being completed and project delayed revealed during the course of audit test are given below.

(a) Sapugaskanda Oil Refinery

The increasing oil requirement of the country could not be supplied by the 46 years old Sapugaskanda Oil Refinery established in the year 1969. As compared with the other refineries in the world with the facilities for refining fuel at a very low cost, thereby capable of carrying out refining operation at efficient and optimum levels, this refinery operates at a very low efficiency. Nevertheless, the proposed project for the Sapugaskanda Oil Refinery Expansion and Modernization had not been implemented even up to 15 July 2016. The Secretary of the Ministry informed on 11 August 2016 that a Cabinet Memorandum for obtaining the approval of the Cabinet of Ministers for the accelerated implementation had been submitted on 10 May 2016.

(b) Pipeline Across the Country Project

The pipeline system established several decades ago for the transport of imported petrol, diesel, kerosene oil and furnace oil from the Port of Colombo to the Kolonnawa Petroleum Storage Terminal had been in need of repairs. Out of those, several pipelines had already been abandoned at present due to the irreparable condition. As a large quantity of imported petroleum products are carried through these deteriorated pipelines to the Kolonnawa Petroleum Storage Terminal, repair and modernization of those should have been done at an accelerated pace. In this connection, the Secretary to the Ministry informed on 11 August 2016 that decisions of the Cabinet of Ministers had been taken from time to time from the year 2008 for the implementation of the “ Pipeline Across the Country Project”, that decision had been taken for carrying out the entire Project under an Engineering Procurement and Construction Turnkey Contract Basis by the contractor on a 100 per cent financing under the Government to Government Procurement Methodology, that the Cabinet of Ministers had decided to invite only one complete proposal recommended by the relevant Foreign Missions only from 4 countries, that requests for proposals for the project had been prepared by the Ceylon Petroleum Storage Terminal Company and referred to the Technical Evaluation Committee and that action will be taken to invite proposals from those countries when that Committee submits its proposals to the Ministry.

(c) Trincomalee Oil Tank Complex

The Trincomalee Oil Tank Complex consisting 100 oil tanks of 12,500 Cubic Meters (10,000 metric tons) capacity and other facilities had been constructed in the year 1930. In consequence of a request made by the Government of Ceylon in the year 1961 to the Government of Great Britain which owned the oil tanks at that time, the ownership of the land, the Oil Tank Complex, buildings and other facilities had been vested in the Government of Ceylon. Out of 99 oil tanks available at present, 14 oil tanks are being used by the Indian Oil Company. A joint Task Force of 06 persons had been established on 29 April 2015 for the development of the other abandoned tanks. In expressing comments in this connection, the Secretary to the Ministry stated that Hon. Prime Minister had submitted a Cabinet Paper dated 06 August 2016 on the subject of Handover of the Operations of the Upper Sector of the Trincomalee Oil Tank Complex to the joint Venture entered into between the Ceylon Petroleum Corporation, the Indian Oil Company. It was reported on 11 August 2016, that it had been decided by the Cabinet of Ministers to cancel the Cabinet Approval granted for the Cabinet Memorandum on the subject of “ Rehabilitation and Development of the other Upper Sector of the Trincomalee Oil Tank Complex by the Ceylon Petroleum Corporation, the handover of

the operations of the Upper Sector of the Trincomalee Oil Tank Complex consisting of 84 Oil Tanks to the Joint Venture entered into between the Ceylon Petroleum Corporation and the Indian Oil Company and to develop the oil tanks in stages of 30 each according to an Action Plan based on time frame, and for the Hon. Minister of Petroleum Resources Development and the Hon. Minister of Development Strategies and International Trade together with the other authorities concerned to decide on a suitable Methodology for taking action on the above matters and to make request to the Hon. Prime Minister to inform that to the Cabinet of Ministers.

(d) Underground Oil Pipeline System of Bandaranaike International Airport

A technical study costing Rs.5 million had been done in the year 2010 and the detailed Procurement Plan costing Rs.1 million had been done in the year 2012 for the construction of the Oil Pipeline System referred to above at a cost of Rs.1,000 million. Nevertheless, the Cabinet of Ministers had decided on 05 September 2013 to cancel the project proposal for the enhancement of the passengers capacity of the Airport to 06 million per year and to enhance that to an annual passengers capacity of 09 million. Accordingly, the scope of the underground fuel pipeline system scheduled for implementation by the Ceylon Petroleum Corporation as well had to be changed. In this connection the Secretary to the Ministry informed on 11 August 2016 that the project is to be concurrently implemented by the Ceylon Petroleum Corporation and the Airport and Aviation Services (Sri Lanka) Company Ltd, that action is being taken to invite Bids with financial facilities as there is a problem in the supply of capital for the work and that the bid evaluation process is in the final stage.

3.10 Performance

Provision of Rs.50 million had been made in the year 2015 for the Petroleum Resources Development Secretariat for the conducted of surveys on the damage caused to the environment and water from oil exploration activities. This project was included in the Action Plan for the year 2015. Nevertheless, problems had emerged at the opening of the financial proposals of the procurements of the project, the Secretary of the Ministry had issued instructions to cancel the procurement, expand the scope of the project, obtain fresh quotations from the National Aquatic Resources Research and Development Agency and award the project to the National Aquatic Resources Research and Development Agency. Accordingly, the agreement had been signed on 31 December 2015 and a sum of RS. 7,433,106 had been paid as a preliminary advance. According to the agreement the work should have been completed within 08 months that is, 31 August 2016. Nevertheless, a considerable progress had not been shown even by 19 August 2016, the date of audit.

3.11 Losses and Damage

Damage had been caused to 10 motor vehicles of the Ministry due to accidents during the year 2015 and a sum of Rs.530,498 had been spent in carrying out repairs to damage. A sum of Rs. 395,446 only had been received as insurance indemnity. Accordingly to follow up action had not been taken on the loss caused to the Ministry.

3.12 Management Weakness

The following weaknesses were observed during the cause of audit test checks.

- (a) A sum of Rs. 1,231,864 had been spent on two officers who had participated in a Training Programme conducted in Singapore by the University of Moratuwa. That expenditure represented 61 per cent of the provision made under the Object for the training of the Ministry Staff for in the year 2015.
- (b) Action had been taken to participate the Legal Officer of the Ministry who had no connection with subject, at a training course on “the use Solar Power in the Developing Countries” relating to alternative energy sources held in the People’s Republic of China during 55 days from 18 June to 12 August 2012 and the Ministry had spent a sum of Rs. 187,070 for her during the year under review. In this connection the Secretary to the Ministry informed on 11 August 2011 that the post is a Departmental post, that the officer performs duties relating to all agreement and the legal affairs in the field, that acquiring knowledge in the field will be helpful to her duties, that she was sent to participate in the foreign training due to that reason and that step were taken to pay the due allowance and the visa fees.
- (c) A sum of Rs. 105,000 at the rate of Rs. 3,500 per Driver had been paid for 30 Drivers out of the provision of the Ministry to the Construction Machinery Training Centre in connection with a Training Workshop for Drivers conducted on 01 August 2015 and none of the Drivers of the Ministry had participated in the workshop. The training course fees had not been recovered from the salaries of the Drivers who did not participate and action had not been taken for the recovery of the money spent on balance of the participating Drivers of the other institution from those Institutions As such the money provided for the training of officers of the Ministry had been used for the officers of other Institutions, thus depriving training opportunities of the officers of the Ministry
- (d) The Ministry had spent a sum of Rs.516,181 for the Additional Secretary (Administration) who had participated in the Training Programme held in Malaysia in the year 2015 jointly with the Sri Lanka Foundation Institute. The Ministry did not have the evidence in support of the participation in the Training Programme such as the photocopies of the air travel tickets relating to the departure from the Island and the return to the Island, a copy of the report to be submitted in terms of the Letter No. HRD/CHI/5/194 dated 16 April 2013 of the Department of External Resources of the Ministry of Finance and Planning, the detailed report on the training undergone, Training Certificate, etc. In addition, the officer had used over 25 per cent of the provision made under the Object on Staff Training of the Ministry during past several years, and had participated continuously on such Seminars and audit queries in that connection were issued from time to time.

3.13 Human Resource Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2015 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i)	Senior Level	16	08	08	-
(ii)	Tertiary Level	02	01	01	-
(iii)	Secondary Level	52	35	17	-
(iv)	Primary Level	27	21	06	-
(v)	Others (Casual/Temporary/Contact Basis)	-	05	-	05
	Total	97	70	30	05