Ceylon Petroleum Corporation – 2018

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1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Petroleum Corporation (“Corporation”) and the consolidated financial statements of the Corporation and its subsidiary (“Group”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income statement of changes in equity ,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 and Finance Act No. 38 of 1971 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 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation and Group at 31 December 2018, 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 Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 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.

1.3 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 Corporation’s and the Group’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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s and the Group’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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 Corporation.

1.4 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 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 Corporation's and Group'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 Corporation'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 Corporation 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 Corporation and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Corporation and the Group have complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;

- Whether the Corporation and the Group have performed according to its powers, functions and duties; and

- Whether the resources of the Corporation and the Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

	Non Compliance with reference to particular Standard	Management Comment	Recommendation
(a)	According to the paragraph 10 of LKAS 2, all other cost incurred in bringing the inventories to their present location and condition should be considered as cost of inventories. However, Excise Duties amounting to Rs. 67,691.9 million incurred in the year under review for importation of fuel and manufacturing of petroleum product had been set off against the revenue without being considered as cost of the inventory. As a result, the actual cost of sales, revenue for the year under review and the value of closing inventories had not been shown in the financial statements.	Evaluations are being made in this regard and will decide whether the accounting policy is to be changed or not in the year 2019.	It should be complied with relevant standard

(a)	LKAS 16 - Property, Plant & Equipment: Fully depreciated assets approximately costing to Rs. 4,821.48 million are being continuously used by the Corporation without reassessing the useful economic lifetime of those assets and accounting them accordingly**.** Further, at a sample audit test check it was revealed that, 12 lands belongs to the Corporation as at the end of the year under review had not been revalued. Therefore, the accuracy of fair value of such assets is in doubt	Absolute ownership of 10 Lands was not existed and the revaluation report of a land received in year 2019. A land is not physically owned and one is not used by CPC. As a result it was unable to access for revaluation. The current status was informed to through the Ministry.	The land belong to the corporation should be clearly identified and account as comply with relevant standard
(b)	LKAS 36 – Impairment: No evidence was made available for audit to ensure that an impairment test had been conducted by the Corporation for the year 2018.	Even though CPC conducted impairment test for the year 2018, no indications were available for the impairment.	It should be adhered to the standard and proper records should be kept.

1.5.2 Unreconciled Control Accounts or Records

Item		As per Financial Statements Rs.Mn	As per corresponding Record Rs.Mn	Differences Rs.Mn	Management Comment	Recommendation
(a)	Receivable from Ceylon Electricity Board	46,813.1	46,029	778.3	The settlement process is on-going and hope to obtain a directive from the cabinet of Ministers on the matter	Action should be taken to recover outstanding early.
(b)	Payable balance to Sri Lanka Custom	8,318.5	5,597.4	2,721.1	The difference has arisen due to the time gap of recording the transaction in both parties and errors of the Customs	Prompt action to be taken to settle the outstanding early

1.5.3 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
Attention is drawn to the matter that the operations of the Corporation had resulted in an after tax net loss of Rs. 105,050.6 million and a total comprehensive expense of Rs. 104,769.6 million for the year 2018 and shown a negative net assets position of Rs. 281,761.5 million as at the end of the year under review. The negative impact of exchange rate variation and the interest cost incurred on foreign currency denominated loans had mainly caused to further increase the accumulated losses of the Corporation at the end of the year under review. It was resulted to retain further negative net assets position of the Corporation. Thus, the ability of the Corporation to continue as a going concern without the financial assistance from the Government is doubtful.	No comments	Favorable actions should be taken to reduce the negative net assets of the Corporation

1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs. Mn	Evidence not available	Management Comment	Recommendation
(a) Receivable from Department of Inland Revenue and Custom	1,135.8	Tax Returns, invoices and other relating documents	Pass necessary entries in the year 2019	Prompt action to be taken to settle the amount
(b) VAT receivable from Department of Inland Revenue	326.4	Tax Returns, invoices and other relating documents other relating documents	Pass necessary entries in the year 2019	Prompt action to be taken to settle the amount
(c) Receivable from Department of Inland Revenue	376	Tax Returns, invoices and other relating documents	This entry was passed in year 1998 and the reconciliations are in progress	Prompt action to be taken to settle the amount

1.5.5 The Audit Opinion on the Financial Statement of the Subsidiary Company

The audit opinion on the financial statement of the Ceylon Petroleum Storage Terminal Ltd (CPSTL) for the year under review was disclaimed by me due to the following matters which will cause to a disagreement with the corresponding balances/transactions of the Corporation and Group

Audit Issue	Management Comment	Recommendation
(a) Provision for impairment of trade receivable totalling of Rs. 174.7 million relating 19 parties for longer period had been reversed and charged to the profit and Loss account for the year under review by the Company. However, evidence was not available to ensure whether any assessment had been done to evaluate the recoverability of them before such reversal. Further, the existence and the accuracy of these trade receivable balances could not be assured in audit through any other collaborative evidences	Reversal of provisions for Impairment of Trade Receivable and slow-moving inventory amounting Rs. 174.7 Mn and 127.2 Mn respectively have been done in accordance with the standard. But detailed disclosures have not been made.	The recoverability of the Trade receivable should be truly ensured before written back of them.
(b) The accuracy of the valuation and completeness of inventory items valued at Rs. 657 million shown in the Statement of Financial Position as at the end of the year under review could not be relied upon in audit due to following reasons. (i) It was observed that, more than 2500 types of inventory items with huge quantity had been included to the Enterprise Resource Planning (ERP) system i.e. SAP of the Company without being entered the value of such inventory items to the system. (ii) According to the practice of the Company, a provision for slow moving inventory items had been made for the entire inventory items for over 03 years at the end of each year from its inception. According to the records of the Company, even though slow moving items over 03 years valued at Rs. 230.2 million were observed at the end of the year under review only Rs.15.6 million had been provided. A proper technical evaluation had not been	No relevant comment had been provided.	A proper evaluation and valuation of Inventory Items to be carried out before take in to the accounts. And relevant discloser has to be made in the Financial Statements in terms of Standard.

carried out prior to the reduction of provision by Rs. 214.6 million.		
(c) The accuracy, valuation and existence of the Inter Company Balances between the Company and the Ceylon Petroleum Corporation (CPC) and Lanka Indian Oil Company (LIOC) were not assured in audit due to following reasons.		
(i) A receivable amount of Rs.1,173 million from CPC had been written off from their accounts to eliminate the loan interest components of throughput charges of 13 cents per liter considering the settlement of Exim Bank Loan. However, no any impairment provision had been made in this regard by the Company.	The decision of the CPC is not valid and Chairman of CPC/CPSTL informed that, to resolve this matter urgently. It was confirmed at the CPC/CPSTL Senior Management Meeting and Chairman instructed DGM (F) CPC to get the board approval and settle the unpaid interest without further delay.	It's to be come to a settlement considering the intention of such loan and legality of them with the CPC and LIOC.
(ii) A difference of Rs. 2,475.8 million including the amount shown in the (i) above was observed between the amounts shown as receivable from the CPC in the financial statements of the Company and the corresponding amount shown as payable in the financial statements of the CPC at the end of the year under review.	As per your differences of Rs. 2,475.8 Mn between CPSTL & CPC of Trade Receivable and payable outstanding as at 31st December 2018, we observed that there were no any differences between those balances on the said periods	All unreconciled balances should be cleared early.
(iii) According to the balance confirmation received from the LIOC, the amount payable to the Company was Rs. 351.5 million, whereas according to the financial statements of the Company the corresponding amount was shown as Rs. 406.59 million. Therefore, an un-reconciled difference of Rs. 55.1 million was observed between those two balances.	The discussions are in progress to reconcile the difference and finalize.	All unreconciled balances should be cleared.
(d) A difference of Rs. 199.8 million was observed between total of Income Tax Payable, Value Added	Appeals that are logged against the disagreed assessments raised by IRD which were not accounted in our financial	Necessary action to be taken to settle all the outstanding with IRD.

	Tax (VAT) payable, Withholding Tax Payable, Pay as you earn (PAYE) Payable and Economic Service Charge (ESC) Payable balances appeared in the financial statements of the Company and the corresponding amounts shown in the records maintained by the Department of Inland Revenue as at the end of the year under review.	statements.	
(e)	The recoverability of overpaid PAYE tax and input VAT amounting to Rs. 6.8 million and Rs. 8.06 million respectively was in doubt since these were unrecovered from the year 2008 and 2010 respectively. However, no provision had been made in this regards even as at the end of the year under review.	A board paper requesting written off/written back have put up and Payee tax differences arisen due to overpayment of PAYE tax in the year 2006.	Actions should be taken to settle all the outstanding tax balances.
(f)	The reliability of payable balance of Withholding Tax (WHT) and output VAT amounting to Rs. 19.1 million and Rs. 13.9 million respectively was also in doubt since these were continuously carried forward year by year in the financial statements for longer period without being settled.	There was no any liability arisen since Department of Inland Revenue has not confirmed. Disagreed with the figure shown in the audit report.	All the long outstanding tax balances to be settled.
(g)	Fully depreciated assets approximately costing Rs. 5,195 million are being continuously used by the Company without reassessing the useful economic lifetime of those assets and accounted them in terms of Section 51 of LKAS 16. Further, the Company had not re-valued its assets since the inception of the Company and a proper revaluation policy was not established for this purpose. Hence, the non-current assets shown in the financial statements had not reflected the fair value of such assets.	Agreed to reassess the assets with the support of ICASL.	The Company should comply with the requirement of Standard and Assets shall be revalued accordingly.

(h) A sum of Rs. 32.6 million which had been transferred to the expenses (Repair and Maintenance) account from Capital work in progress account (WIP) recognizing it as recurrent expense in the year 2017 was reversed in the year under review. However, a proper basis had not been observed for such reversal. As a result, the net profit and the expenses in the year under review had overstated and understated by similar amount respectively	No relevant comment had been provided.	The nature of the expenditure should be correctly identify before capitalized them.
(i) Several Transport Charges and Vessel Charges had been accounted on cash basis which contrary to section 27 and 28 of the LKAS 01 by the Company.	Agreed and will not happen in future.	Accrual basis to be applied in terms the requirement of the Standard
(j) No any provisions had been made in the financial statements of the year under review by the Company for total estimated loss of over Rs.150 million incurred due to two major fuel leakages which were reported at the Muthurajawela SPBM on 08 September 2018 and at the Kolonnawa Installation on 12 October 2018.	Investigation is carried out and hopes to recover from responsible employees.	All losses shall be recovered from responsible parties

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Amount of Rs.1,617.2 million which had been paid as Custom Duties and taxes before discharging the cargo of rejected shipment which includes excise duty of Rs. 648 million had not been recovered or settled at the subsequent payments by the Corporation since January 2017.	Shipment was rejected due to major deviation of quality and took several actions to recover the amount Rs.1, 617,202,705 which was paid under the instruction issued from Director General of Customs.	Action should be taken to recover outstanding early.

(b) A sum of Rs. 57.7 million was paid to the Department of Customs to settle the amount outstanding since 2002 in respect of the bunkering operations on the basis of reimbursement that amount from the General Treasury. However, actions had not been taken by the Corporation to get recover from the General Treasury even up to date.	Payment of Rs. 57,736,913 was made in 2014 and took several actions to settle the amounts.	Prompt action to be taken to settle the amount

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
According to the confirmation received, an amount of Rs. 4,591.2 million had to be paid by the Corporation to the People's Bank as at the end of the year under review in respect of hedging transactions taken place for procurement of oil during the period of 2007 to 2009. However, it had not been brought to accounts of the Corporation.	We are not aware of the amount of Rs. 3,847.1 Mn. to be paid to the People's Bank.	Prompt action to be taken to come a settlement with Peoples Bank Government Institute.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Public Enterprises Circular No. PED/12 of 02 June 2003 - Guidelines for Good Governance.			
(i) Guideline 4.2.3(b)	The Board had not periodically reviewed the performance of its Subsidiary in order to ensure the achievement of targets of the Subsidiary.	Action will be taken complying with the guideline.	It should be complied with the relevant guideline
(ii) Guideline 4.2.6	Quarterly Performance Reports had not been forwarded to the line Ministry and the Department of Public Enterprises on or before 30 days before the end of each quarter.	Performance reports for a particular year are forwarded to the Line Ministry as Mid-year and Full year reports.	Proper records and acknowledgements to be kept

(iii)	Guideline 4.3	Minutes of Board meetings had not been forwarded to the Secretary to the line Ministry within 10 days after confirmation of such minutes.	This is not the normal practice and in future will arrange to send	It should be complied with the relevant guideline.
(iv)	Guidelines 5.2.4	The draft Budget had not been placed before the Board of Directors for approval, three months before the commencement of the financial year.	Noted. Actions have already been taken to obtain the approval from the Board of Directors for the Annual Budget 2019 as indicated in this Circular.	It should be complied with the relevant guideline
	Guidelines 5.2.5	Copies of the final updated Budget approved by the Board had not been forwarded to the line Ministry, the Department of Public Enterprises, General Treasury and Auditor General not later than 15 days before the commencement of the year 2018	Noted. Action will be taken to submit the Annual Budget 2019 on or before the dates indicated in the circular.	It should be complied with the relevant guideline
(v)	Guideline 9.3	The Corporation does not have a Scheme of Recruitments and Promotions which has been approved by the appropriate Ministry with the concurrence of the Department of Public Enterprise, General Treasury.	It is in the process of reviewing at present.	It should be complied with the relevant guideline
(b)	Finance Circular No. 124 of 24 October 1997 of the Ministry of Finance and Planning	Covering up duties of a vacant post should be limited to a period of 03 months. Nevertheless, 16 officers had been assumed for cover up duties of the vacant posts including 13 Grade A posts such as Manager (Investigation), Manager Marketing (Retails), Regional Manager (Central) etc. for the period ranging one year to 10 years as at 31 December 2018.	Internal advertisements have been issued for 10 posts and the advertisements for the other 03 posts will be issued.	It should be complied with the relevant circular

(c) Public Enterprises Department Circular No. FP/06/35/02/01 dated 04 November 2013 and No. PED 03/2016 dated 29 April 2016	The Corporation had borne the Pay As You Earn (PAYE) tax of its employees amounting to Rs. 259.9 million without deducting it from their personal emoluments for the year under review.	The PAYE amount added to the employes's salaries as additional benefit and deducted in terms of the Inland Revenue Act No. 24 of 2017.	It should be complied with the relevant circular
(d) Guideline 4.2 of the Government Procurement Guidelines (2006)	Master Procurement Plan had not been prepared at least for three years by the Corporation	Oil procurement plan for the period 2019-21, forwarded to the line ministry and others are prepared annually. Since no Budget allocations granted for coming years it was not indicated in the Procurement Plan of respective years.	It should be adhered to the standard and proper records should be kept.

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
The long term loans and short term loans denominated by US dollars had been increased by Rs. 1,311.6 million or by 493 per cent and Rs. 115,021.1 million or 64 per cent respectively at the end of the year under review compared with the previous year. As a result, total cost on loan amount of Rs. 94,770.6 million which comprise interest expenses of Rs. 12,053.3 million and loss on exchange rate variation of Rs. 82,717.3 million had been incurred by the Corporation in the year under review. In the meantime, total investment had been increased by Rs. 83,180.3 million or 176 per cent and an interest income of Rs. 7,732.9 million was only earned in the year under review. It is observed that amount of Rs. 83; 180.3 million had been invested in various short term investments using the borrowed money by the Corporation during the year under review. However, the Corporation had not taken proper	The approval of the Board has been granted to purchase of USD is permitted through two state banks only. However, such banks had not supplied USD to cater CPC demand. Therefore, CPC has utilized these funds to invest at least to mitigate forex losses. Further, Several actions have been taken to mitigate the exchange rate variations in future In addition, suppose that the two banks attempted to fulfill CPC demand, the country's foreign exchange rate might have worsen further since	Immediate actions to be taken to mitigate the possible losses.

action to settle the foreign currency loans by using their available cash which could have been reduced considerably the interest expenses and loss on exchange rate variations. The Corporation had obtained a loan amount of Rs. 1,310.8 million (USD $ 7.725 million) from People's Bank on September 2018 disregarding the availability of cash position of the Corporation. As a result, a loss on exchange rate variation amount of Rs. 114.7 million had been incurred by the Corporation during the year under review and total outstanding balance had been increased to Rs. 1,425.5 million at the end of the year under review.	CPC's interaction in Sri Lanka foreign exchange market is much more significant.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 105,050.635 Million and the corresponding profit in the preceding year amounted to Rs. 1,055.634 Million. Therefore a deterioration amounting to Rs.106,106.269 Million of the financial result was observed. The reasons for the deterioration are the exchange rate variance expenses and finance expenses had been increased by Rs. 77, 795.287 million and 1,534.245 Million respectively.

2.2 Ratio Analysis

According to the information made available, some important accounting ratios of the Corporation and the Group for the year under review and the preceding year are given below.

	Corporation		**Group**	
Ratios	**2018**	**2017**	**2018**	**2017**
Profitability Ratios				
Gross Profit/ (Loss) Ratio (GP) (%)	(0.58)	6.05	(1.74)	4.64
Operating Profit/ (Loss) Ratio (%)	(4.44)	1.61	(4.24)	2.28
Net Profit/ (Loss) Ratio (NP) (%)	(20.16)	0.24	(20.16)	0.80
Liquidity Ratios				
Current Assets Ratio (Number of times)	0.432	0.384	0.448	0.403

Quick Assets Ratio (Number of times)	0.338	0.272	0.353	0.288
Investment Ratio				
Return on Assets (ROCE) (%)	33.38	-7.62	35.98	-10.82

The following observations are made in this regard.

(a) The gross profit/ (loss) ratio and the operating profit/ (loss) ratio of the Corporation had declined by 110 per cent and 375 per cent respectively during the year under review as compared with the previous year.

(b) The net profit/ (loss) ratio of the Corporation and the Group had declined by 8,618 per cents and 2,611 per cents during the year under review as compared with the previous year. The main reason is exchange rate variation and finance expenses had increased by 1,581 per cents and 15 per cents respectively.

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
According to the Board Decision No. 38/1140 dated 29 October 2013, the Board has approved to recover a Monthly Utility Fee (MUF) from all Corporation Owned Dealer Operated (CODO) Filling Stations and Treasury Owned Dealer Operated (TODO) Filling Stations with effect from 01 January 2014. However, this decision had not been implemented as expected due to various reasons. Therefore, more than Rs. 300 million per annum had been lost to the Corporation since the year 2014. Accordingly, an approximate cumulative loss of Rs. 1,500 million sustained to the Corporation since the year 2014 to 2018. Action had not been taken by the Corporation to charge MUF from the dealers in both categories as mentioned above.	The observation made on above caption is not acceptable since there is an ambiguity of the decision and connected Board decision mentioned therein. At the moment CPC is paying 0.25 percent less commission to CODO dealers than the DODO dealers and the commission generated out of that 0.25 percent currently applied as the rental charged for the Corporation Owned outlets. Hence the said MUF will be in addition to that and there cannot be any additional charges for the same purpose.	It should be complied with the board papers and take the necessary actions

3.2 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The Shareholder Agreement and Share Sale Purchase Agreement for the above facility among Corporation, LIOC and the CPSTL were expired on 31 December 2008.	The agreement between CPC & CPSTL has been signed on 21/05/2019. Throughput Charges and Transport charges has been considered when preparing the agreement.	The agreements should be updated timely manner.
(b)	The agreement entered between a Company in the Gas industry and the Corporation in respect of selling liquid petroleum gas had been expired on 20 October 2006. However, the Corporation is being supplied the liquid petroleum gas to that company continuously without entering into a new agreement or renewing the earlier agreement. In addition to that, the Corporation supplies liquid petroleum gas to another private company without entering into an agreement.	CPC has made arrangements to sign the agreement with Ms. Laugfs Gas PLC and Ms. Litro Gas Lanka Limited and several discussions were conducted to finalize the agreements.	Actions should be taken to finalize the agreement
(c)	The formal agreements for fuel supply had not been entered into with 14 major customers including CEB, Sri Lankan Air Line, Tri Forces, Sri Lanka Railways, etc.. even at the end of the year under review.	Arrangements have been made to forward the draft agreements to the respective parties and sign after the finalizing of such agreements.	Early actions to be taken to enter for agreements with major customers
(d)	As per the audit examination carried out pertaining to the hedging transactions taken place in respect of procurement of oil during the period of 2007 to 2009, the total loss incurred to the country on those transactions as at 31 December 2017 was Rs. 14,028 million. Moreover,	The action filed against CPC in Commercial High Court is still pending. CPC has filed an appeal in the Supreme Court against the Order made for preliminary objection in the Commercial High Court which is still pending in the Supreme Court.	Actions to be taken to conclude the cases early and recover the losses from respective parties if any.

	the Commercial Bank had filed a case at the Commercial High Court, Colombo against the Corporation by claiming US$ 8,648,300.		
(e)	According to the Board Decision No. 04/1114 dated 16 March 2012, an approval had been granted to retain the Department of Valuation (DOV) for revaluing the lands and buildings and to complete within 03 months. Subsequently, a further approval was granted on 14 May 2012 for the payment of Rs. 5.5 million as advance for the above task. However, revaluation of lands and buildings had not been completed even up to the date of this report.	The revaluation of the possible lands where the ownership has been finalized is completed by now and the advance paid had been recovered from the payment due to Government Valuation Department	It should be taken favorable actions to revalue the assets
(f)	Instances were observed where the dealerships had been granted in the year under review by the Corporation contrary to the provision of the Marketing Manual of the corporation.	All dealerships granted have been approved by the Board and Marketing Manual is the guideline when evaluating the dealership applications. Therefore deviation can be made by notifying the dealership applications or by notifying the Board accordingly.	Corporation should be complied with the marketing manual and a transparent procedure to be applied.

3.3 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The Stock Review Committee consisted of members from the Corporation, CPSTL, JCT Oil Bank and LIOC, members of the CEB and an officer from the line Ministry and its meetings are held in every week. However, the Corporation had not maintained proper records relating to the stock levels, i.e. re-order level, maximum and minimum levels, and re-order quantity etc. in each petroleum product. The order quantity of petroleum products was decided solely based on the	This issue has been resolved after many discussions had with CPSTL and extracted stock data for SAP system is now considered for the planning purpose at SRC.	Proper records of stocks should be maintained by the corporation.

	Stock Quantity Maintenance Report submitted by the CPSTL and no any other documents with regard to the maintenance of stocks of petroleum products had been submitted to the Stock Review Committee. However, it was revealed that, since the introduction of SAP system in 2010, the Corporation was unable to extract data to produce the reports on stock requirement.		
(b)	According to the information made available, the excise duty for importation of Petrol and Diesel are paid based on the quantity mentioned in the Bill of Lading or Outturn Quantity whichever is high. As per the Corporation "As required by Sri Lanka Customs this was initiate very long time back and in case of payment based on lower value there is a risk of imposing penalty on Corporation". However, accuracy of this practice was questionable.	It was initiated as required by Sri Lanka Custom's very long time back. CPC inquired from the Director General of Customs the basis of considering the higher quantity for charging the Excise duty instead of considering Outturn quantity on Petroleum Oil. But a straight & clear guidance was not received. Accordingly CPC decided to pay duties & taxes to Customs based on actual received quantity at discharge port based on the figures indicated in the survey report of the independent inspector from 2019.	It should be come to a settlement with the support of relevant parties as not to bring the same issue to the future.
(c)	The existing 47 years old Refinery (commissioned in 1969) is a basic Refinery and is not being able to cater the increasing demand for petroleum products in the country and this Refinery is operating with low margin when compared with refineries operating with advanced technologies including facilities to produce petroleum products at lower cost and capabilities to upgrade bottom products to high value products such as petrol and diesel, whereby maximizing its operating efficiency. However, the CPC was unable to implement the proposed Sapugaskanda Oil Refinery Expansion and Modernization (SOREM) Project in order to ensure supplying of its products to the market in a cost-effective manner.	At the moment modifications and minor upgrading work are carried out. It has been identified that some critical equipment is required to replace due to aging to run the refinery safely in future. The Front-End Engineering Design (FEED) tenders were called from competent parties around the world and once the FEED is completed, EPC tenders to be called to implement the project which will require 2 – 3 years for the EPC phase. Several investors approached	It must be given a great attention to upgrade the existing refinery and build a new as to satisfy the country demand at lowest cost

Even though preliminary feasibility study had been completed and the required land (35 acres) had been acquired for this purpose, as stated by the management, it was unable to initiate the project yet due to insufficient financial strength to invest for this project. Total cost of the project was estimated at US$ 2.1 billion with a payback period of less than 8 years, and the Net Present Value (NPV) of the project would be US$ 1,535 million. Further, the land acquired by incurring of Rs. 1,003 million for that purpose had been laying idled even up to date.	the CPC management to develop the refinery and in 2018 and 2019 but final implementation proposal has not yet been confirmed. As the project delay is purely due to unavailability of funding, CPC initiated a discussion with National Agency for Public Private Partnerships (NAPPP) which operates under Ministry of Finance in year 2019 to formulate a framework for a funding mechanism of implementing the project. In addition, It has been identified that 35 acres land previously for SOREM project and idled at the moment can be utilized when an investor is selected to build a refinery to cater the country requirement	
(d) The Tank Farm contained of 100 Oil Tanks, each having a capacity of 12,500 cubic meters (m^3) (10,000 MT) and other associated facilities, had been constructed in 1930. The land with an extent of 358.553 hectares belong to the Tank Farm had been given on lease basis by the Government of Sri Lanka to the Commissioners of the Lord High Admiralty of the British Government for a period of 999 years before gaining independence to Sri Lanka. In 1961 at the request of the Government of Sri Lanka, the Corporation had paid Sterling Pounds 250,000 in three installments and taken over the possession of Land, Tank Farm, Buildings and other equipment with effect from 01 April 1964. Nevertheless, no legal documents had been obtained up to date from the Government for the above land. In 2003, the Government of Sri Lanka had entered into an agreement with the LIOC	On or about December 1963 the Government entered into an agreement with the British Government for the purpose of the buildings and equipment at the Oil Installation Premises for a sum of GBP 250,000.This amount had been paid by CPC in three installments. CPC has not been received any ownership document up to date.	It should be paid immediate attention to clear the ownership of farm and initiate the petroleum related business using the available resources in the farm.

and the Corporation to lease out the storage facilities and the land to the LIOC for a period of 35 years and lease agreement should be executed within 6 months from the date of the agreement. The Corporation had not yet entered into any lease agreement or uses the tanks. However, LIOC is using those assets from the year 2003.		
(d) **Pipeline Network for Oil Transportation**		
(i) The pipelines installed several decades back to transport of imported finished petroleum products such as petrol, diesel, kerosene and furnace oil from the Colombo Port to the Kolonnawa Petroleum Installation are in a state of repair and it was revealed that some of them have already been abandoned due to the deteriorated condition beyond repairs. There is an urgent need for the renovation and replacement of these pipelines, as a huge quantity of the national requirement of the petroleum products is being carried into Kolonnawa Fuel Storage Terminal through those deteriorated pipelines. There is a possibility of severe fuel crisis due to transporting the imported finished petroleum products through those deteriorated pipelines.	At present, out of five pipelines, only two lines are in operation. Rehabilitation of 12" dia. 5500m long pipeline was started in 2015 with CPSTL funds and 97.5% of the work is already completed. Balance work at Mahawatta (140m - 2.5% of total work) had to be stopped due to occupancy and protest of squatters on the pipeline route. CPSTL has identified that 130 houses at Mahawatta and Meethotamulla are on the pipeline corridor and 289 houses in the surrounding area of the pipeline corridor. Several actions have been taken to rehabilitation of deteriorated pipelines by removing the squatter and once such squatter removal is completed, CPSTL can proceed with replacement of 12" dia. pipeline and CCPP.	Immediate and prompt actions to be taken to rehabilitate the deteriorated pipelines as to ensure the uninterrupted fuel supply in the country.
(ii) The Muthurajawela installation is fed through a Single Point Buoy Mooring (SPBM) facility located in the mid sea about 6 km from the shore and 7.2 km from Muthurajawela Terminal and there was no alternative supply source in case of rough sea conditions or when the	Several actions have been taken to link the pipeline between Kolonnawa and Muthurajawela Terminals.	Immediate and prompt actions to be taken to link the pipeline of main installations as ensure an economical and efficient fuel supply in the country.

SPBM facility is under maintenance. At the same time, there was no linkage between the Muthurajawela Terminal and Kolonnawa Installation for inter-terminal product transfers, which had also hampered the optimum utilization of those Terminals due to those constraints.		
(iii) Even though, the approval of the Cabinet of Ministers for the implementation of "Cross Country Pipeline Project" had been granted on 13 September 2012, it had not been implemented even up to date of this audit report.	Several actions have been taken to implement the cross country pipeline projects even it was not	It should be taken necessary actions to implement such project as approved by Cabinet of Ministers

3.4 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) **Halgaha Kumbura Land at Wanathamulla -** This land had been acquired for Rs.10.6 million for the purpose of LP Gas Project and a Playground. However, this land had not been utilized for the intendant purpose and it had been occupied by more than 700 squatters.	CPC cannot utilize this property except for the specific purpose mentioned for acquisition. As per the provisions in the State Land (Recovery of Possession) Act, steps can be taken to evict the unauthorized occupants. However, considering the large number of families that would be affected and the resultant social impact CPC had consulted UDA through the Ministry of Petroleum and thereafter this was brought to the notice of the Ministry of Petroleum Resources Development in 2019 in order to obtain a workable solution.	Steps to be taken to evict the unauthorized occupants as per the provisions in the State Land (Recovery of Possession) Act as mentioned.
(b) **Mahahena Land** According to the correspondence made available, the Corporation had acquired this land by spending Rs. 0.625 million, and it had not	Despite several reminders Divisional Secretary, Kolonnawa has not taken any action to evict the unauthorized occupants and	Legal actions to be taken to evict the unauthorized occupants and utilize the property for betterment of the Corporation.

been accounted for. However, this land is being utilized by the previous owner even after the acquisition in 1986.	handover the vacant possession to CPC in several lots.

3.5 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
(a) An amount of Rs. 504.1 million had been allocated from the budget of the year under review for 20 capital projects where the aggregating estimated cost was Rs. 512.8 million. However, such projects had not been implemented until the end of year under review.	Such projects had not been implemented due to various reasons such as cancelling, differing, postponing, scope changing, delaying procurement process, etc…	The projects should be included in the budget only after a proper feasibility study.
(b) Two projects where the total estimated cost of Rs. 6,756.8 million which should be commenced in 2017 and 2018 had not been commenced until end of year 2018	Such projects had been delayed due to various reasons such as scope changing, delay in the procurement process, etc...	Favorable actions should be taken to start the project on scheduled time periods.
(c) Actual cost of 04 capital projects commenced during the period of 2014 to 2018 had been exceeded the initial estimated cost by Rs. 20.05 million or by ranging 15 per cent to 85 per cent.	The initial estimated cost had been exceeded due to various reasons such as scope changing, changing the market condition	Favorable actions to be taken to not to exceed the estimated cost and start the projects on schedule time period.

3.6 Procurement Management

Audit Issue	Management Comment	Recommendation
According to the decision No.12/0295/510/003/TRB of 22 March 2012 taken by the Cabinet of Ministers, the line Ministry should make endeavor to enter into term contracts for supply of petroleum products with extended credit facilities, as opposed to the spot buying on weekly basis. However, 52 contracts (shipments) out of 78 valid Contracts (14 contract had been cancelled) were entered during the year 2018 on the basis of spot contract contrary to the above decision.	CPC has no sufficient storage capacity to absorb the stock variation with the demand fluctuation in the country as well the term tender quantities are fixed and not able adjusts the quantities in order to fill the ullage created. In such occasions, if CPC do not use the single tenders to fill the ullage, either product shortage or incurring vessel demurrages could not be avoided.	It should be adhered with the decisions from Cabinet of Ministers.

3.7 Resources Released to Other Organizations

Audit Issue	Management Comment	Recommendation
Public Enterprises Circular No. PED/12 of 02 June 2003 - Guideline 9.4 of Good Governance. The Corporation had released 06 employees to other institution in 2018 without the approval of the Cabinet of Ministers and paid emoluments to 04 employees of them using the funds of the Corporation	At present there are only two employees released and informed the Secretary of the Ministry of Defense to release these officers back to CPC as instructed by the Board of Directors.	It should be complied with the relevant guideline

4. Accountability and Good Governance

4.1 Effectiveness of Management Information System

Audit Issue	Management Comment	Recommendation
There was no any agreement or a Memorandum of Understanding (MOU) between the Corporation, the CPSTL and the LIOC with regard to their individual responsibilities in respect of the involvement of the Enterprise Resource Planning (ERP) System introduced by the CPSTL. Further, this system is not adequately utilized, especially for the fuel stock reviewing purposes.	SAP ERP System introduced to CPC by CPSTL. An agreement that should have been signed before implementation of the SAP ERP System at CPC, but there is nothing which indicates either how it was introduced or how LIOC which is a competitor of CPC in the import of fuel, was authorized to share the said system. A draft agreement however exists but there is no formal agreement for the "Common use of ERP". Previous CPC Management has taken steps to review the SAP system by appointing an independent team of IT Consultants and awaiting for their report with recommendations. Also the current management is in the process of having a formal agreement.	It should be taken favorable actions to enter to an agreement with CPSTL and LIOC

4.2 Audit Committee

Audit Issue	Management Comment	Recommendation
The recommendations made by the Audit Committee of the Corporation are not regularly reviewed by the Board. Instances were observed where information requested by the Committee was not completely and timely provided by the respective officials of the Corporation.	Approved minutes of all the Audit Committee meetings conducted so far been submitted to the board for approval. At the Board meeting, Board of Directors review the minutes and approve them while giving directions to relevant functions regarding important matters included in those minutes. Prior to each Audit Committee meetings, Pre-Audit Committee meeting is conducted and required responses are obtained from relevant heads of function.	It should be ensure that the information requested by the Audit Committee is completely and timely provided by the respective officials of the Corporation.