Ceylon Petroleum Corporation and its Subsidiary - 2020

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1. Financial Statements

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 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and statement of cash flow 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 the Group as at 31 December 2020, 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 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 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 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;

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

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

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
Fully depreciated assets amounting to Rs. 2,526 million had been continuously used by the Corporation without being reassessed the useful economic lifetime of them, and accounted for in compliance with LKAS 16. Further, an audit test check revealed that, 22 lots of land belonged to the Corporation as at the end of the year under review had not been revalued, and as a result, a substantially lower amount had been shown as land in the financial statements.	Noted. But the reassessment of useful life of fully Depreciated Assets (PPE) is not practicably applicable with the accounting adjustment. And also the useful life time will depend on usage pattern of the locations and CPC may incur the significant cost for reassessment for life time. The 11 no's of lands which have not been revalued without having absolute ownership. But the Steps are being taken to clear the ownership of those lands by the legal Function. Accounting adjustment on revaluation will be made after clearance of ownership of these Lands.	It should be adhered to the standards and proper records should be maintained.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Inter Company Balances		
(i) According to the records of the Corporation, the net amount payable to Ceylon Petroleum Storage Terminal Ltd (CPSTL), the subsidiary, was Rs. 5,965.04 million which comprise the amounts of payable to and receivable from the CPSTL of Rs. 6,565.79 million and Rs. 600.75 million respectively. However, as per the draft financial statements of the CPSTL, which was used to prepare the consolidated financial statement for the year 2020, the net amount receivable from the Corporation was Rs.7,668.03 million which comprised amounts receivable from and payable to the Corporation of Rs 8,017.94 million and Rs. 349.92 million respectively. Therefore, un-reconciled difference of Rs. 1,702.99 (Rs. 1,452.16 million of receivable and Rs. 250.83 million of payable) was observed in the intercompany balances of two entities.	As per the CPC ledger, payable to CPSTL is Rs. 6,575.785 and receivable from CPSTL is Rs. 600.747. Accordingly, net amount of Rs. 5,965.038 has been eliminated for the preparation of Consolidated Financial Statements.	Appropriate actions to be taken to clear all unreconciled balances and correct figures should be included in the consolidated financial statements.
(ii) However, according to the board approved financial statements of the CPSTL for the year under review, the net amount receivable from the Corporation was Rs. 6,958.93 million which comprised amounts receivable from and payable to the Corporation of Rs. 7,308.85 million and Rs. 349.92 million respectively in contrary to the figures already consolidated in the group accounts.	Reconciliation statements of intercompany balances are attached in order to identify the un-reconciled balances between two parties.	Appropriate actions to be taken to clear all unreconciled balances and correct figures should be included in the consolidated financial statements.

(iii) Differences in the trade and other receivables of Rs. 782.76 million, income tax payable of Rs. 182.20 million, trade and other payable of Rs 60.24 million, other operating expenses of Rs. 12.12 million, property plant and equipment of Rs. 26.67 million and income tax expense of Rs. 3.31 million were observed between the amounts shown in the consolidated financial statements and the board approved financial statements of the CPSTL in the year under review.	As per the statutory requirements, CPC has to prepare and submit the Financial Statements to the Auditor General on or before 28.02.2021 for the audit purpose. Since the subsidiary has not finalized their financial statements to meet statutory deadlines, the Financial Statements of CPC have been prepared based on the available best information (draft financial statements) in order to comply with the statutory requirements. Since CPSTL has prepared the final financial statements after 28.02.2021, Consolidated Financial Statements have been prepared based on the available draft financial statements and accordingly the differences have been arisen.	Appropriate actions to be taken to clear all unreconciled balances and correct figures should be taken when preparing consolidated financial statements.
(iv) According to the Board Decision No. 02/1552 dated 22 July 2021, the board had granted approval to pay disputed outstanding loan interest amounting to Rs. 637.04 million to the CPSTL and to retain 5 per cent of throughput charges amounting to Rs. 1,226.38 million, which was approximately an equal amount of bowser charges duplicated for the last two years. However, such transactions had not been adjusted or disclosed in the financial statement in the year under review.		Appropriate actions to be taken to clear all unreconciled balances and correct figures should be included in the consolidated financial statements.

(b) Kerosene Subsidy

Corporation sells kerosene at the Government decided price with an agreement to reimburse the loss incurred by the Corporation caused by any price reduction as the Government subsidy in compliance with instructing given by the letters No. FP/06/100/02/2016 dated 24 November 2015 and the No. TTIP/1/83(1)T dated 04/12/2014 of the of the Secretary to the General Treasury. Even though, the total amount of subsidy recoverable for the period from 2014 to 2020 was Rs. 39,587 million, the General Treasury had reimbursed only a sum of Rs. 4,459 million as at the end of the year under review. Even though the total subsidy receivable as at the end of the year under review amounted to Rs. 35,129 million, only a sum of Rs. 5,097.72 million had been accounted for. As a result, the subsidy receivable as at the end of the year under review had been understated by Rs. 30,031 million while the turnover had been understated by Rs. 2,122 million in the year under review and by Rs. 27,909 million in the previous years (from the year 2017). Further, all direct and indirect taxes on that income also had not been accounted for and paid.	CPC supplies Kerosene at the Government decided price. The Government reduced the Kerosene price time-to-time to provide relief to the low income families and fisher community and the Government agreed to reimburse the losses suffered by CPC due to the sale of Kerosene at a reduced price decided by the Government. Accordingly, the Government reimbursed Rs. 4,459 million as a set-off against Excise Duty. Based on the letters given by the General Treasury and reimbursement, CPC recognized the Kerosene subsidy for 2014, 2015 and 2016. However, reimbursement has not been made by the Government after the above reimbursement of Rs. 4,459 million. Further, the Government (General Treasury) is also not confirming the reimbursement of the Kerosene subsidy. Accordingly, CPC has not recognized the Kerosene subsidy in the financial statements from 2017 onwards. The recognition of the subsidy revenue may lead to pay additional tax expenses for the profits/income, which is in substantial doubt for the recoverability. However, the continuous follow-ups are in the process to recover balances.	Appropriate actions to be taken to recover all the unrecovered subsidies and account for accordingly. All the applicable taxes to be paid in terms of tax law.

(c)	It was unable to satisfactorily verify in audit the accuracy and completeness of the interest expense on foreign currency denominated loan for the year under review due to lack of details on calculation of interest for each loan separately by the Corporation. As per calculations done in audit, a difference of Rs. 948.9 million was observed compared with the interest expenses shown in the financial Statement for the year under review. Further, a difference of Rs. 92.6 million in loan settlement values was observed between the amounts shown in the accounts of the corporation and the calculations done in audit based on the exchange rates given by the Corporation. Further, the Corporation had not properly updated the records for each loan, such as, capital outstanding, detail interest calculation, loan documentation including agreements, ete.	07 Board Papers and Board Awareness Leaflets have been submitted in this regard on various occasions. We do not have the necessary cabinet approvals or board decision to charge a monthly utilized fee in addition to the fees currently charged. Therefore, there is no legal basis for charging such a fee. Further, the fees assumed to be charged as MUF have not been accounted for as receipts by the Corporation and no audit queries have been sent to us in this regard until 2019, and there is no possibility of accounting for the above charges which have not been approved for implementation in practice.	Records relating to each loan, such as, capital outstanding, detail interest calculation, loan documentation including agreements, etc. should be maintained properly.
(d)	**Collection of Monthly Utility Fee (MUF)**		
	According to the Board Decision No. 38/1140 dated 29 October 2013, the Board had 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 fully implemented, i.e., MUFs had been charged only from 11 out of 248 dealers. Accordingly, it was observed that the Corporation had not collected the income over a sum of Rs. 300 million per annum since the year 2014. Accordingly, an approximate cumulative loss of	The Managing Director of the Corporation had withdrawn his comments on this regard stating that "as *discussed at the 95th Audit and Management Committee Meeting dated 29th December 2021, it is regrettable that some of the critical information were not revealed in the said letter"*. Further, it was stated that the updated response for audit query will be forwarded upon the completion of comprehensive investigation carry out by the Chief Internal	Appropriate actions to be taken to recover the loss of income from responsible parties. Also, the board decisions should be implemented without delay.

	income of Rs. 2,300 million had been incurred by the Corporation for the period from 2014 to 2020. Even though this matter was reiterated in my previous audit reports, effective action had not been taken by the Corporation to charge MUFs from all dealers in both categories as mentioned above. Further, no any adjustments had been made in the financial statements for the year under review in this regard.	Auditor of the line ministry at Ministry Level.

1.5.3 Un-reconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding record	Difference	Management Comment	Recommendation
	Rs. Mn	Rs. Mn	Rs. Mn		
(a) Payable balance to IRD				As approved by the General Treasury, CPC settled the income tax liability relating to the Y/A 2016/17 on equal 36 installment basis. Although the Treasury approved, the Inland Revenue Department system has accrued the penalties as late payments on settlement of installment basis. Therefore, the differences have been arisen.	Appropriate actions to be taken to clear all the unreconciled balances with Inland Revenue Department (IRD).
(i) NBT	3,242.5	560.8	2,681.7		
(ii) Income Tax	351.6	9,272.3	8,920.7		

(b) PAYE Tax	0.1	46.9	46.8	Long outstanding payable amounts are settled after getting individual employee's request. Some balances are retained in the financial statements as a provision for such future claims.	Appropriate actions to be taken to clear all the unreconciled balances with IRD
(c) Receivables	1.6	(.5)	2.1	Customers confirmed the balances on the date they receive confirmation letter. Transaction made subsequently is paid without any dispute. Presently no issue with the customers.	Appropriate actions to be taken to clear all the un-reconciled balances with customers.

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

The audit opinion on the financial statements of the CPSTL, the subsidiary, for the year under review was qualified by me due to the following matters which will cause to a disagreement with the corresponding balances/transactions of the Corporation and the Group. Further, an Emphasis of Matter was included in relation to the Note 2.5.2(a) of the Financial Statements which describes the uncertainty related to over/under recovery of duplicated transport charges from CPC for the period from 01 June 2019 to 31 December 2020.

(a) Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(i) Fully depreciated assets, comprising 15,148 items of approximate cost of Rs. 7,727.6 million have been continuously used by the Company without being reassessed the useful economic lifetime of those assets as per the LKAS 16. Further, the Company had not established a proper policy to revalue its	Since the initial valuation of CPSTL properties in year 2003 the Company has not carried out any valuation at properties at Kolonnawa & Muthurajawela main Oil Terminals, Offshore oil facilities and Island wide 11 Bulk Depots due to high cost involved, complexities due to large volume of industry related assets belonging to the company. Board of Directors approval have been granted to carry out the revaluation of CPSTL Property, Plant and Equipment at	The Company should comply with the requirement of the Standards.

	assets since the inception of the Company in 2003.	Kolonnawa & Muthurajawela main Oil Terminals, Offshore Oil Facilities and Island wide 11 Bulk Depots at the meeting held on 11th August, 2021 (BP # 07/214). Management is planning to complete this task and restate the value of fixed assets to bring up to its market conditions during the F/Y 2022.	
(ii)	The Company had not recognized the right of use assets relating to 6 motor vehicles acquired in the year 2017 on operating lease basis and corresponding lease liability in financial statements in the year under review in accordance with the paragraph 47 of SLFRS 16.	CPSTL does not entered into contractual obligation with any leasing company to lease motor vehicles and transfer ownership to CPSTL at the end of the contract. The 06 no's motor vehicles hired from M/s. Rajagiriya Tours (Pvt.) Ltd are under the operating lease agreement where ownership of these vehicles does not transfer to company at the end of the contract period.	The Company should comply with the requirement of the Standards.
(iii)	According to the notes to the financial statements of the Company for the year under review, it was stated that the erroneously recorded interest income and pipe line income in previous years had been corrected retrospectively. However, the error in overcharging of the interest component of the throughput income from CPC and LIOC amounting to Rs. 579,805,642 (inclusive of VAT and NBT), and pipe line income amounting to Rs. 100,220,058, which were related to years prior to 2019, had been shown as "written off expense" under comparative information of the previous year instead of being adjusted the cumulative effects in the statement of changes in equity in accordance with paragraph 42 of LKAS 08.	According to paragraph no. 43 of LKAS 08, a prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error. And; According to paragraph no. 47 of LKAS 08, when it is impracticable to determine the amount of an error (e.g., a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. Paragraphs 50–53 provide guidance on when it is impracticable to correct an error for one or more prior periods. Based on the above two scenarios. If it is impracticable to determine either the period-specific effects or the cumulative effect of the error, in accordance with paragraph 45, the entity shall restate the comparative information prospectively from the earliest date practicable. Further, it	The Company should comply with the requirement of the Standards.

	disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. As explain above, prior year “written off expenses” in compliance with the paragraph 43 to 48 of the LKAS 08.	

(b) Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(i) According to the financial statements for the year 2019, the retention money relating to the construction of a fuel tank which had been completed in 2019 amounted to Rs. 31,446,395 had not been included in the cost of the fuel tanks. As a result, the value of fuel tanks had been understated by that amount, and the amount of depreciation had also been understated in the year 2019. Further, the accumulated depreciation for the year under review had understated and as a result, the net amount of the assets had been overstated.	Although there are internal controls in place to ensure that all entries are embedded to draft financials. Due to the high volume of transactions, the omission was an inadvertently oversight by finance when preparation of financial statements. However, this had been corrected subsequently in the F/Y 2020. The management and finance team will take every step to ensure that all liabilities will be properly accounted in the future when preparation of annual financial statements.	All the assets should be capitalized in terms of related accounting standards.
(ii) Overcharged pipe line income amounting to Rs. 26,789,209 relating to the previous year had been erroneously included under the overcharged pipe line income for the year under review. As a result, the profit for the year under review had been understated by that amount. Even though the overcharged pipe line income for the previous year (2019) amounting to Rs. 103,920,895 had been written off in the previous year, the actual overcharged pipe line income for that year (2019) was amounting to Rs. 30,490,045. As a result, profit of the previous year had been understated by Rs. 73,430,849.	As explain in paragraph 47 of the LKAS 08, when it is impracticable to determine the amount of an error (e.g., a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. Paragraphs 50–53 provide guidance on when it is impracticable to correct an error for one or more prior periods.	The Company should comply with the requirement of the Standards.
(iii) Writing back of long outstanding payable balances totaling Rs.59,510,180 had been	The net effect on write off/ write back has been adjusted in the financial	The Company should comply with

set off against the written off amount of the erroneously overcharged pipe line income in the year under review. As a result, other operating income and other operating expenses had been understated by similar amount in the year under review.	statements without showing two separate line items for better presentation. Which does not mislead the readers of financial statements and in comply with LKAS 01.	the requirement of the Standards.
(iv) According to the financial statements of the Company, the balance of the foreign currency denominated bank accounts as at the end of the year under review was Rs. 338,378,355. However, as per the calculations done in audit based on the balance confirmation provided by Bank of Ceylon, the balance as at the end of the year under review was Rs. 410,613,825. Accordingly, an unexplained difference of Rs. 72,235,470 between those two figures was observed. Further, a USD denominated saving account in Bank of Ceylon is remained unchanged for over several years.	Due to oversight, USD currency exchange rate of Rs. 157.56 have been used instead of Rs. 191.196 when preparation of financial statements 31st December 2020. The omission was inadvertently oversight when preparation of draft financial statements by the finance team and internal audit review.	Appropriate actions should be taken to record all the omitted balances.

(c) Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(i) According to the financial statements provided to the audit, income tax amount payable to Inland Revenue Department (IRD) as at the end of the year under review was Rs. 383,213,359. Details relating to the composition of such income tax payable balance were not made available to audit. However, as per the balance confirmation received from IRD, the net correspondence amount to be settled (payable and receivable) to IRD was to Rs. 541,461,671. Accordingly, an un-reconciled difference of Rs. 158,248,312 was observed between those two balances.	When compared to Inland Revenue Department (IRD) computerized database system balances with CPSTL general ledger balances, we assume that these differences may have occurred due to data entry errors, time delay when update of self-assessment notices/ tax payments/ delay in update of final tax returns and IRD system may include tax assessments raised in previous years which are pending to be resolved due to appeal process. Furthermore, for the purpose of preparation of reconciliation between IRD balances with ledger balances	Appropriate actions should be taken to rectify these differences with IRD.

	we have requested detail breakdown from IRD which is still pending.	
(ii) According to the financial statements for the year 2019 the provision for income tax expenses was Rs. 1,045,291,808 whereas, the actual tax payment for that year was only Rs. 1,005,993,161. Even though the under provision made for the income tax for the previous year amounted to Rs. 39,298,647 should have been adjusted in the year under review, the amount adjusted in this year was only Rs. 36,441,226. As a result, an unadjusted difference of income tax provision amounted to Rs. 2,857,421 was observed in the year under review.	Agreed as over provision in year 2019 Rs. 2,857,421 to be adjusted.	Appropriate actions should be taken to rectify the issue.
(iii) There was a difference amounted to Rs. 66,931,834 between the amount shown in the fixed assets register provided to audit and the net book value (NBV) of property, plant & equipment (Freehold Building and Motor Vehicles), which had been considered in accounting which are not entitled for capital allowances.	The new Deferred Tax liability to be increased by Rs. 16,063,640 and the omission was inadvertently missed out by finance team during the preparation of financial statements for the year 2020. This will be rectified in following year.	Appropriate actions should be taken to rectify the issue.
(iv) According to the financial statement for the year under review, VAT amount payable to IRD for the year under review was Rs. 53,278,154. However, according to the IRD records, net amount receivable (receivable and payable) to IRD was Rs. 138,747,556. Accordingly, an un-reconciled difference of Rs. 85,469,402 between those two balances was observed.	The Value Added Tax (VAT) amount mentioned in the financial statements as at 31 December 2020 represent the VAT liability for December 2020 which was due to be paid on or before the 20 January 2021. Furthermore, preparation of reconciliation between IRD balance and the ledger balance is not possible due to IRD reply is pending on official requests made by us requesting detail breakdown for balance of Rs. 138,747,556 as reported by you.	Appropriate actions should be taken to rectify these differences with IRD.
(v) As per the Company records, revenue for the period from 01 October to 31	There is a mistake when disclosing VAT liable turnover figure in the	Appropriate actions should be

December 2020 was Rs. 3,140,630,614. However, as per the VAT return submitted to the IRD, the revenue amount considered for VAT calculation was only Rs. 3,120,446,154. Therefore, an un-reconciled difference between those two records amounted to Rs. 20,184,460 was observed.	VAT Return for the quarter ended 31st December 2020 whereas there is no change in VAT liability. Actions will be taken to amend the VAT return accordingly.	taken to rectify the issue.
(vi) Even though, as per the balance confirmation received from IRD, the PAYE balance payable to IRD as at the end of the year under review was Rs. 109,449,724, there was no any PAYE payable amount to IRD as per the financial statement of the Company for the year under review. Accordingly, an un-reconciled difference of Rs. 109,449,724 between those two records was observed.	According to our records there was no pending liability on PAYE as at 31st Dec. 2020. Company has ceased payment of PAYE tax for on behalf of employees' w.e.f. Jan, 2020 with the change of law. Furthermore, for the purpose of preparation of reconciliation between IRD balances with ledger balances, we have requested detail breakdown from IRD which is still pending.	Appropriate actions should be taken to clear the differences with IRD.
(vii) According to the financial statement of the Company for the year under review, the amount receivable from IRD as at the end of the year was Rs. 24,838,931 whereas the amount of WHT payable to IRD as per the balance confirmation received from IRD, was Rs. 31,499,999. Accordingly, an un-reconciled difference of Rs. 56,338,930 between those two records was observed.	The amount mentioned With Holding Tax receivable in financial statements represent the amounts deducted by withholding agents as the specified fees and interest paid to the company. This tax credits will be claimed against the income tax payable when submission of income tax return. The WHT amount payable according to the IRD record of Rs. 31,499,999 was paid on 28.03.2019 (cheque No. 069094) and IRD made data entry error when updating the system. A request has been sent to IRD to correct the above mistake.	Appropriate actions should be taken to rectify these differences with IRD.

(d) Accounts Receivable

Audit Issue	Management Comment	Recommendation
Other receivable amounting to Rs. 7.2 million was remained unrecovered for over 5 years as at the end of the year	Most of these balances are carried forward from prior to SAP ERP implementation in year 2010. The likelihood of recoverability of	Appropriate actions should be taken to recover

under review. However, sufficient confirmation regarding the recoverability of that amount was not made available to audit.	these balances is very remote. Audit & Management Committee recommended write off these long outstanding balance receivable with the prior approval of Board of Directors.	long outstanding receivable balances.

(e) Accounts Payable

Audit Issue	Management Comment	Recommendation
(i) There were debit balances in 7 trade and other payable accounts amounting to Rs. 2,675,710 as at the end of the year under review, which had included 2 debit balances totaling Rs. 178,610 remaining for over 5 years. Further, there were 5 debit balances totaling Rs. 2,497,100 remained unsettled ranging from 1 to 5 years. However, the Company had made some subsequent transactions with vendors without being settled their debit balances. Therefore, existence and accuracy of those debit balances were questionable in audit.	Most of the debit balances in Vendor accounts are reflected due to reversal of erroneous invoice verifications in SAP (MIRO) without clearing the balances.	Appropriate actions should be taken to get all reconciled balances cleared.
(ii) There were 21 payable balances amounting to Rs. 15,748,981 outstanding for over 5 years and 40 payable balances amounting to Rs. 56,566,358 outstanding from 1 year to 5 years as at the end of the year under review. However, the management of the CPSTL had not taken proper actions to settle them. Accordingly, existence and accuracy of those balances were in doubt.	There are certain vendor liabilities lying as long outstanding payables which are no longer required to be paid by the company. The Sri Lanka Financial Reporting Standards (SLFRS 9), or IFRS-9, provides a list of criteria that must be met before any account payable can be written off.	Appropriate actions should be taken to get all reconciled balances cleared.
(iii) According to the Board decision 31/210 dated 08 April 2021, the Company had written back some long outstanding payable balances amounting to Rs. 59,510,180 in the year under review. However, evidences relating to the basis of written back were not made available to audit.	According to these guidelines, financial liabilities should only be derecognized by the company when the obligation to pay is expired, canceled, or discharged. As such, they are not written off based on the time frame. Therefore, after completing the due diligence for each and every vendor	Appropriate actions should be taken to get all reconciled balances cleared.

		account liability. These balances have been written back subject to Audit & Management Committee recommendations and approval of the Board of Directors.	

(f) Related Parties and Related Party Transactions not disclosed

	Audit Issue	Management Comment	Recommendation
(i)	According to the records of the Company, the amounts receivable from and payable to CPC had been amounting to Rs. 7,308.85 million and Rs. 349.92 million respectively. However, according to the records maintained by the CPC, the corresponding amounts payable to and receivable from the Company were amounting to Rs. 6,565.79 million and Rs. 600.75 million respectively. Accordingly, it was observed an un-reconciled net difference of Rs. 993.89 million, which had comprised amounting to Rs. 743.06 million and Rs. 250.83 million of intercompany receivable and payable balances respectively between two entities. However, the CPC had decided by its Board Decision taken on 22 July 2021, to pay disputed outstanding loan interest amounting to Rs. 637.04 million to CPSTL.	Rs. 637,043,541 payable on loan interest receivable. CPC has taken necessary action to obtain the board approval for same and waiting for settlement of dues. Rs. 53,548,548 unaccounted SAP maintenance charges. CPC has taken necessary action to obtain the board approval for same and waiting for settlement of dues. Rs. 103,920,894 pipeline charges. CPSTL has taken AMC approval and CPSTL board approval to write off these receivables due from CPC as at 31st December 2020. Rs. 156,389,459 Remaining unresolved balances. Actions have been taken to resolve the balance outstanding disputes with CPC during the year 2021.	Appropriate actions should be taken to settle all unreconciled balances.
(ii)	According to the records of the Company, the amount receivable from LIOC were Rs. 655.64 million, and as per the confirmation received from LIOC the amount payable to the Company were Rs. 695.82 million. Accordingly, an un-reconciled difference of Rs. 40.18 million in the intercompany balance between two	Rs. 43,458,458 Refund of loan interest. CPSTL AMC has decided to write off an amount of Rs. 37,057,076 plus taxes in comply with directions given by the Secretary to the Ministry of Energy. Accordingly, CPSTL has written off total of Rs. 43,458,458 from	Appropriate actions shall be taken to settle all unreconciled balances.

entities as at the end of the year under review was observed.	the receivable amounts of LIOC as at 31st December 2020. Remaining outstanding disputes of Rs. 3,308,922 with LIOC resolve during the year 2021.	
(iii) Differences between the amounts shown in the General Ledger of the Company and the related party disclosures, in relation to CPC, in the financial statements (Note No. 19) of the Company amounting to Rs. 70.87 million and Rs. 374.69 million were observed for the year ended 31 December 2020 and 2019 respectively.	There was no difference between the balances for the said period.	Appropriate actions shall be taken to correct unreconciled balances.

1.5.5 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
Attention is drawn to the matter that even though the operations of the Corporation had resulted in a profit after tax of Rs. 2,371 million and a total comprehensive income of Rs. 20,562 million for the year ended 2020, the Corporation had recorded a negative net assets position of Rs. 275,561 million as at the end of the year under review. Heavy losses incurred during past years mainly due to the continues negative impact of exchange rate fluctuations, increasing in finance expenses, inappropriate pricing policy and also the negative impact of heavy losses incurred by the Corporation due to hedging transactions taken place during previous years had caused further erosion of the net assets of the Corporation. Thus, the ability of the Corporation to continue as a going concern without the financial assistance from the Government is in doubt.	CPC is a government owned public Corporation established to ensure the energy security of Sri Lanka. As main petroleum product prices are decided by the Government even below the total cost, CPC had to incur the loss over historically. Therefore, the accumulated losses incurred by CPC caused to the negative net assets of Rs. 275,561 Mn. as at 31.12.2020. Although the CPC operates with the above negative net assets, CPC continue it operation on going concern basis as the Government backed for the operations to ensure the energy security of the country.	Special attention of the management to be given to enhance the equity position of the Corporation

1.5.6 Documentary Evidences not made available for Audit

	Item	Management Comment	Recommendation
(a)	The volume of petroleum products at fuel terminals are measured in tanks and must be converted to equivalent volumes at a standard temperature which is in 15°C or 60°F. Fluctuations in temperature cause oil products to expand or contract, which lead to changes in the measured volume and density. This is particularly significant in the storage of hot and cold tanks. Failure to take into account the temperature effect in tank calibration or tank gauging will cause to measurement unfairness, especially in the determination of closing stock level and actual product loss/gain. However, values in the books had been taken in to the financial statement as closing stock of the year under review without being carried out an annual physical stock verification by the Corporation as at the end of the year under review. As a result, the actual closing stock volume, value and product loss/gain could be materially misstated in the financial statements as compared with the actual inventory measurement as stated above. Further, due to non-availability of inventory counting and the relevant inventory counting documents, the existence and accuracy of the closing stocks of fuel shown in the financial statements as at the end of the year under review could not be satisfactorily verified in audit.	Physical verifications are carried out every day at every location for the bulk products by the respective operational staff and updated these data into system for the daily reconciliation. After quantity reconciliation loss or gain is calculated daily ensuring the abnormal gain or loss after the operation and posted these data to system monthly. At the year end, Finance & Audit staffs are participated for this physical verification at every location in order to further verification. Due to Corvid 19 Pandemic situation, travelling restrictions & accommodation problems, finance & audit staff has allocated only for the physical verification at Terminals & Refinery. Finally it was cancelled since Covid patients (Staff members) from these locations were found at that time. But the physical verifications have been carried out as usual by operational staff of every location without participation of Finance & Audit staff and this situation has already been communicated by Auditor General. Further, bulk products are accounted at the time of receiving (imports & refinery production), issuing and transferring on the basis of observe liters considering Natural temperature and the density. Quantities are being reconciled monthly for preparation of monthly financial statement and no material variation has been	Annual physical stock verification has to be carried out by the Corporation and accounted for accordingly.

identified based on quantity reconciliation in year 2020

Item ---------	Amount ------------- Rs. Mn	Evidence not Available ----------------	Management Comment -------------------------------	Recommendation ----------------------
(b) A receivable balance had been Continuously carried forwarded without being taken proper actions to settle it from IRD and Department of Custom.	1,135.8	Tax Returns, invoices and other relating documents	After verifying with the Shipping Function, these amounts were written off in the books of accounts in FY 2021 with the approval of the Board of Directors since it is identified that Rs. 1,135.8 Million is not receivable from Department of Inland Revenue and Sri Lanka Customs.	An appropriate actions to be taken to clear/recover all the outstanding balances.
(c) Payable balance	30.13	Detail schedule of the payables and any other supporting documents.	Outstanding will be cleared in due course.	Prompt actions to be taken to settle the outstanding early
(d) Vested Property	1.02	Detail schedule of the assets and any other supporting documents.	No relevant comment has been provided.	Appropriate actions to be taken to maintain proper records of Corporation's property
(e) Two dummy accounts, namely "RF Dummy and HO Dummy"	-	Clarification for possibility to written off/back	"RF Dummy and HO Dummy" is cleared in the financial year 2021 after obtaining necessary approvals from the Board of Directors.	Prompt actions to be taken to clearly unidentified balances before write-off.
(f) Value Added Tax Receivables	326.4	Tax Invoices and relevant supporting	Unclaimed input VAT on local purchases and imports amounting 128.14 has been	Prompt action to be taken to clear all the outstanding

		documents	carried forward to 2021 and these amounts will be recovered against the output VAT in 2021.	balances with IRD.
(g) Tax receivable form Department of Inland Revenue	376	Tax Invoices and relevant supporting documents	The Inland Revenue Department agreed to set off the advance income tax amount of Rs. 376 million against the income tax liability for the year 2002/2003 and accordingly the amount of Rs. 376 million has been transferred to the income tax payable account.	Appropriate actions to be taken to maintain proper and updated records of transactions, and to clear all the outstanding balances with IRD.
(h) Debit balances in trade and other payables	749.66	Balance confirmation and other relating supporting documents	Rs. 401.39 Mn out of Rs. 749.66 mn has been settled in the FY 2021. Remaining will be settled in due course	Appropriate actions to be taken to maintain proper and updated records of transactions.
(i) Good in transit of Agro products	7.6	The relating documents to confirm the balances	Investigations & Court case has not been finalized to clear outstanding under stock in transit of Rs. 7, 651,679 as per system. However the total has been accounted under closing stock and provision has been made for same amount. There is no material impact for the financial statement for the year 2020.	Appropriate actions to be taken to maintain proper and updated records of transactions.

(j) Quantity of 7,718KL petroleum products.	-	Physical inventory verification documents	This has been already informed to CPSTL to clear quantity pending due to incomplete transaction. This is not physical available quantity for taken into account with valuation for financial statement.	Appropriate actions to be taken to maintain proper and updated records of transactions.
(h) Actual Demurrages		Sufficient and appropriate audit evidence	Cost of demurrage for the year under review is on estimated basis which are provided by the Commercial Function. The actual cost of the demurrage is decided by a committee. The details of the provision are with Finance Function.	Appropriate actions to be taken to maintain proper and updated records of transactions.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) According to the age analysis provided to the audit, 74 debit balances totaling to Rs. 930,193,687 and credit balances totaling to Rs. 5,048,644 relating to the trade receivables shown in the financial statements as at the end of the year under review were remained unrecovered/ unsettled over 05 years. Further, subsequent transactions with these venders have been carried out without being settled the existing balances.	Several actions have been taken to recover these receivable balances.	Prompt actions to be taken to clear all the outstanding balances.
(b) According to the sample test, trade receivable balances relating to 96 customers were different from the amounts shown in the financial statements and direct balance confirmations received from the customers. Accordingly, it was observed a total difference of	Noted. CEB, other Government customers, one IPP account, Private consumers and Agro Chemical having 13 account numbers have been reconciled between Leger balances and the balances confirmed by the customers. The rest of the customer balances in	Appropriate actions to be taken to maintain proper and updated records of transactions.

Rs. 2,032 million, which had comprised receivable balances of 47 customers amounting to Rs. 1,528 million and balances of 49 customers amounting to Rs. 504 million when compared with the amounts shown in the ledger accounts.	the Audit query are confirmed by the customers on the date they have received the confirmation letter. They are not aware of the charges made at the year end. Subsequently they pay their due amounts and have no dispute with CPC at present.	
(c) **Recovery of Duties and Taxes** As stated in previous audit report, Rs. 1,617 million paid as Custom Duties and taxes before discharging the cargo of rejected shipment, which includes excise duty of Rs. 648 million, had not yet been recovered or settled at the subsequent payments by the Corporation since January 2017.	Auto Diesel Shipment (Gas Oil 0.05% on board M/T Swarana Kalash of 16/01/2017-BK 03/2017) rejected in month of January 2017 due to major deviation of quality and CPC paid Rs. 1,617,202 as Customs Duties & Taxes before discharging the cargo. According to the instruction issued from Director General of Customs by the letter reference No. I/RLV/2015/01 dated 26/11/2015 which stated duties to be paid before clearance of the cargo. Further as per the directive given by the Ministry of Petroleum Resources Development letter reference No. MPI/DEV/3/6/4(ii) dated 28/12/2015 CPC has cleared the subsequent Petroleum Oil Consignments only after the payment of relevant import taxes imposed by Sri Lanka Customs. The Preventive Department of Sri Lanka Customs implemented the order of Director General of Customs by allowing birthing of vessels only after the payment of duty & taxes. Drawing samples for lab tests are done only after birthing of the vessels. Due to this reason CPC happened to pay import duties & taxes before verifying the quality of this shipment. Several Actions had been taken to recover the amount.	Appropriate actions to be taken to recover or settle all the outstanding balances.
(d) **Payment of Penalty** As stated in previous year audit reports, a	The payment of Rs. 57,736,913.00 to Custom Department to settle the outstanding was done as per the	Appropriate actions to be taken to get reimbursed

sum of Rs. 57.7 million 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, this amount had not been reimbursed even up to the date of this report.	instructions of General Treasury to remove outstanding liability in Sri Lanka Customs. CPC has done the payment in 2014 with the intention of recommencing the bunker operations. Letter has been sent General Treasury to intervene on this matter.	the amount early.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
(a) 20 debit balances totaling to Rs. 154.59 million over 05 years, and 27 debit balances totaling to Rs. 1,448.29 million over 01 year to 05 years shown under trade and other payables were remained unsettled as at the end of the year under review. Further it was observed that the Corporation had made subsequent transaction with these venders who were having debit balances without being settled the existing debit balances. Therefore, the accuracy and existence of those balances are critically doubt in audit.	Receivable amount of Rs. 130.94 million from PV Oil Singapore PTE Ltd consist as the largest balance out of Rs. 154.59 million over 5 years. Legal proceeding in progress for this vendor.	Appropriate actions to be taken to get settled the outstanding balances.
(b) According to the Age Analysis provided to the audit, balances of 76 venders totaling Rs. 35,590.13 million relating to the trade and other payable amount shown at the end of the year under review were remained unsettled for over 05 years and 739 payable balances totaling to Rs. 12,240.66 million which shown in the Age Analysis of the Trade and other payables at the end of the year under review were remained unsettled ranging in 01 to 05 years. However, sufficient evidences relating to the actions taken by the Corporation to settle the balances were not made available to audit. Therefore, accuracy and existence of those balances is doubt in audit.	Payable amount of Rs. 33.482 Million from National Iranian Oil Corporation is included in Rs. 35,590.13. This amount could not be settled due to international sanction issues. Another amount of Rs. 90.98 shown as payable to Luna Shipping & Enterprises Ltd which involves legal proceeding.	Appropriate actions to be taken to clear all the outstanding balances and maintain proper and updated records of transactions.

(c) Total amount of USD 250,925,169 is to be paid to the National Iranian Corporation, Tehran in relation to purchase of Petroleum Products by the Corporation which is equivalent to Rs. 32,344 million in the year 2013. According to the information provided, payment of such outstanding balance was stopped due to sanctions enforced to Iran by the United State. Such balance has been showing as a payable amount from the inception, at the exchange rate as at the end of each year and the difference of the adjustment transferred to exchange gain or loss of the respective year. Accordingly, payable balance and accumulated exchange rate variance loss (from 2012 to 2020) at the end of the year under review had been increased to Rs. 47,933 million and Rs. 15,193 million respectively. The exchange rate variance loss for the year under review was Rs. 2,122 million. Further, it was also observed that the payment of this balance had not been done due to uncontrollable external factors. However, there were no sufficient and appropriate evidence to ascertain whether the Corporation had taken effort to settle that amount by alternative forms and evaluate the financial feasibility of keeping the balance unsettled in a situation where gradually depreciating the LKR over USD for a longer period.	Several attempts were made in the year 2019 to settle NIOC outstanding balance. But due to Covid-19 situation in the world during 2020, could not take any initiatives.	Appropriate actions to be taken by the Corporation to minimize the related cost and other consequences in this regards.
(e) Payable amounts under Refundable Deposits and Others relating to employee's accounts were remained unsettled for a longer period without being taken any action to settle them. However, reasons for not settling these balances for a longer period were not ascertained in audit.	Long outstanding payable amounts are settled after getting individual employee's request. Some balances are retained in the financial statements as a provision for such future claims.	Appropriate actions to be taken to clear all the outstanding balances and maintain proper and updated records of transactions.

1.7 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
Indian Oil Corporation Limited (IOC) had been registered as a supplier to supply Petroleum-related product by the Corporation on 26 June 2020 for a period of one year and IOC had applied for tenders of the Corporation for 05 months. However, LIOC is a fully own subsidiary of IOC and LIOC hold 1/3 ownership of CPSTL that is the subsidiary of the Corporation. In other hand, LIOC is the sole competitor of the Corporation and a related party through the CPSTL. Therefore, audit was unable to justify the reason to allowing sole competitor to supply of petroleum product for a one-year period. Further, audit was unable to ensure the suitability of existing supplier registration process of the Corporation.	Due to the objection raised by Special Standing Cabinet Appointed Procurement Committee (SSCAPC) held on 26/11/2020 IOC has been removed from the registered list of suppliers with CPC and No Cargo has been purchased from them other than the emergency cargo purchased in 2017 (Ref. BK/88/2017 – Jet A1). The process followed by CPC is with the approval obtained from the SSCAPC with the recommendations of Standing Technical Evaluation Committee. (STEC). Recommendations are welcomed by CPC to change the existing registration process, which is allowed new suppliers to apply without any specific period but at any given time suppliers willing to apply for registration. This is done to increase the competition through increasing the list of participation.	A proper evaluation of suppliers to be made prior to accept as a registered supplier. The supplier registration process of the Corporation should be streamline as to prevent any undue access from third parties.

1.8 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 5.2.2	Capital projects had been carried out without a proper feasibility study.	CPC evaluates the capital projects at the annual budget discussions and accordingly the values are entered to the Annual Budgets.	It should be complied with the relevant guidelines

	(ii) Guideline 7.2	Corporation had not prepared procedure manuals including all major activities for the Lubricant Business, Bitumen Business, Bunkering Business and Agro Business of the Corporation.	The Procedure manual is being prepared. It is scheduled to be completed by November this year	It should be complied with the relevant guidelines
	(iii) Guideline 9.3	The Corporation did not have a Scheme of Recruitments and Promotions which should have been approved by the appropriate Ministry with the concurrence of the Department of Public Enterprise, General Treasury.	Preparation of the proposed new recruitment and promotion procedure is almost complete and it is expected to be completed within the next three months.	It should be complied with the relevant guidelines
(b)	Finance Circular No. 124 dated 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, officers had been assumed for cover up duties of the vacant posts including Grade A posts, for more than 03 months.	There had been 37 covering up arrangement from 06.10.2020 and this number had been reduced to 21 by 14.07.2021. Filling of vacancies could not be done efficiently due to the pandemic situation prevailed in the country. However, you are kindly informed that vacancies will be filled with immediate effect and all the acting arrangements will be cancelled.	It should be complied with the relevant guidelines
(c)	Financial Regulation 396	Issued Cheques passes six months from the date it had been dated should be considered as stale and reverse the original transaction. However, 64 cheques worth	In the process of reversing un presented cheques.	It should be complied with the relevant guidelines

Rs. 34,911,295, which had been issued but not presented, were remained without being reversed.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 2, 370.96 million and the corresponding loss in the preceding year amounted to Rs. 11,835.6 million. Therefore, an improvement amounting to Rs. 14,206.56 million of the financial result was observed. The main reason for the improvement was the decrease of the fuel price in the world market due to Covid pandemic.

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	**2020**	**2019**	**2020**	**2019**
Profitability Ratios				
Gross Profit/ (Loss) Ratio (GP) (%)	10.80	0.68	9.50	(0.59)
Operating Profit/ (Loss) Ratio (%)	6.65	(3.02)	7.00	(2.63)
Net Profit/ (Loss) Ratio (NP) (%)	0.46	(1.88)	0.84	(1.62)
Liquidity Ratios				
Current Assets Ratio (Number of times)	0.45	0.47	0.47	0.49
Quick Assets Ratio (Number of times)	0.36	0.36	0.38	0.38
Investment Ratio				
Return on Capital Employed (ROCE) (%)	(8.73)	(1.00)	(10.58)	(2.15)
Gearing Ratio (Number of times)	(1.44)	(1.06)	(1.57)	(1.14)

The gross profit/(loss) ratio, operating profit/(loss) ratio and net profit/(loss) ratio of the Corporation had increased by 1504 per cent, 320 per cent and 125 per cent respectively during the year under review as compared with the previous year.

Return on capital employed had been decreased by 777 per cent during the year under review as compared with the previous year of the Corporation.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) As iterated in previous audit reports, it was observed that there was no any agreement or a Memorandum of Understanding between the Corporation, CPSTL and LIOC with regard to their individual responsibilities in respect of the involvement of the Enterprise Resource Planning (ERP) System introduced by the CPSTL, and as such this system was not adequately utilized, especially for the fuel stock reviewing purposes and refinery function.	There is no agreement signed between CPC, LIOC & CPSTL for SAP ERP System. However, as per the decision taken by the Board, a bi-party agreement between CPC and CPSTL was drafted. Thereafter, as directed at the ERP Steering Committee meeting we have requested observations for the draft Tri-party agreement and for the SAP software End User Value License Agreement.	The Corporation should enter into an agreement without further delay with all related parties.
(b) Prompt actions had not been taken by the Corporation to rectify the following observations which iterated in previous audit reports with regard to Common User Facilities		
(i) The Common User Facilities Share Holder’s Agreement (GOSL/CPC/LIOC) dated 30 December 2003 entered into between Government of Sri Lanka (GOSL), the Corporation and LIOC had been expired on 31 December 2008 in terms of section 15 of the Agreement. Therefore, the common user facilities covered under such agreements including the Governance procedures of entities and the pricing formula used for the	Agreement has been signed between CPC and CPSTL to determine the throughput charge and the transport expenses. Separate Committees have been appointed to submit the agreed formula. The Secretary, Ministry of Energy has discussed this matter with CPC and CPSTL. The final decision will have to be	The Corporation should enter into an agreement without delay with the agreement of all related parties.

	purpose of determining the throughput charges and transport expenses including slab charges (last revised in 2011) had not been revised with the agreement of all related parties.	incorporated to the agreement.	
(ii)	The Corporation had entered into an Agreement with CPSTL on 13 May 2019, and accordingly, terms and condition in relation to storage and transport of petroleum products and the way of deciding the throughput between CPC and CPSTL were agreed. However, the terms and condition relating to the same subject affected to the LIOC, a main user and a party who were in the Common User Facilities Share Holder’s Agreement (GOSL/CPC/LIOC) dated 30 December 2003, were not defined. Therefore, it was observed that any impact on unfavorable conditions and cost had to be borne by the Corporation in any event of LIOC refusing the terms and condition entered between the Corporation and CPSTL.	"The agreement signed in 2019 is between CPC and CPSTL for the services rendered to CPC by CPSTL. Discussions have been initiated between the parties with the intervention of the Secretary, Ministry of Energy in order to amend certain terms. The terms and conditions between CPSTL and LIOC cannot be included to this agreement. CPC is entitled to appoint 06 Directors as the 2/3rd shareholder of CPSTL and the quorum of the Board is 03 Directors, two of which shall be from CPC and one shall be Lanka IOC. Therefore, CPSTL cannot enter into any agreement with LIOC where CPC will have any adverse impact.	The Corporation should enter into an agreement without delay with all related parties.
(iii)	According to the Board Decision No. 43/1227 dated 03 May 2019, approval to increase the throughput charges was granted with effect from 01 April 2019. As a result of backdating the effective date, CPC had to pay extra amount of Rs. 173.77 million for the month of April 2019. However, Corporation had failed to recover such amount up to date.	Throughput revision has been made with salary revision and requested from Jan. 2019. But this has been increased by 01.04.2021 as per Board decision. However the action has been taken to recover this amount from CPSTL as per audit para and it was not successful.	Appropriate actions to be taken by the management as minimize the cost to the Corporation.
(iv)	According to the Common User Facilities Shareholders ‘Agreement (among CPC, LIOC and GOSL) dated 30 December 2003 and the agreement between Corporation and CPSTL dated 13 May 2019, maintenance of the pipelines or	Agree with the content.	Appropriate actions to be taken by the management as minimize the cost to the Corporation.

	portions of pipelines to the accepted standards and provide storage facilities to maintain 02 months fuel stock is a responsibility of CPSTL. However, as a result of delaying in unloading fuel from a vessel due to blockages in the pipeline and inefficiencies in the storage system, the Corporation had paid demurrages over USD 2.7 million during last 06 years without shifting such cost to the service provider.		
(v)	The Corporation had paid Rs. 250 million to the Urban Development Authority in relation to the rehabilitation of 12″ diameter and 5,500m long pipeline from Colombo Port to Kolonnawa Oil installation in the year 2019. According to the information made available to audit, the Corporation had not entered into any agreement or had any negotiation with CPSTL in order to recover the paid amount in future. Therefore, bearing total cost of a capital improvement of CPSTL, subsidiary, by the Corporation without any contribution of other shareholder is questionable to audit.	"At the Cabinet Sub-Committee meeting dated 03.07.2019 in the subject of "Providing houses for the squatter families in order to proceed with replacement of fuel transfer pipelines from Colombo port to Kolonnawa Oil Installation" it was decided Ministry of Highways & Road Development and Petroleum Resources Development to direct CPC to bear 50% of the relocation cost considering the financial benefits that could be gained by CPC upon replacement of the said pipelines and the remaining 50% by General Treasury. Based on that commitment given by the Line Ministry, CPC Board of Directors have decided to make the payment of 50% of the actual cost to UDA. CPC made this advance payment of Rs. 250 Million with the intention of obtaining a downward reduction of the throughput charge to recover the advance payment. Accordingly, negotiations are in progress with CPSTL for a throughput revision to recover Rs. 250 Million.	Appropriate actions to be taken by the management as minimize the cost to the Corporation.
(vi)	According to the agreements, throughput charges consist of Storage Terminal cost and profit margin.	Throughput charge has been increased by 27% in 2019 April considering cost component	Appropriate actions to be taken by the management as

Storage Terminal Cost includes personal cost, overhead and maintenance cost and depreciation of the assets of CPSTL. It implied that all the transport charges of CPSTL should be excluded when determine the throughput charges. However, audit was unable to ensure whether the transport related cost of the CPSTL had been excluded when deciding the storage terminal cost of throughput charges. As a result, reimbursement of transport charges to CPSTL could be duplicated. According to the information available, an amount of Rs. 2,506 million had been paid as transport charges to CPSTL during the year under review.	excluding hired bowser transport of CPSTL. However CPC had already retained 5% of throughput charge in order to recover duplicated transport expenses paid for CPSTL owned bowser fleet.	minimize the cost to the Corporation.
(vii) According to the definitions of the Common User Facilities Share Holders 'Agreement (among CPC, LIOC and GOSL) dated 30 December 2003, Storage terminal Cost defined as "Interest at the rate of twelve per centum (12%) per annum on the loans being vested in the Company and forming a part of the storage assets and liabilities as well as further loans taken to bridge the cash deficit". This agreement was expired on 31 December 2008. However, the Corporation had paid over Rs. 2,183 million as the interest portion for the period from 2009 to 2016 relating to the loans obtained from People's Bank in 2009 by CPSTL after the expiry of the agreement. It was observed that such payment had been made without proper evaluation and confirmation about the real amount to be paid in terms of the agreement.	Noted	Appropriate actions to be taken by the management as minimize the cost to the Corporation.
(viii) Maintenance of the pipelines to the accepted standards and provide sufficient	Agreed with the Content.	Appropriate actions to be taken by the

	storage facilities is the main role of the subsidiary company, CPSTL. Accordingly, a considerable amount of funds had been transferred to the CPSTL as throughput charges to the development of infrastructure relating to the storage and terminal facilities of the fuel supply in the country. CPSTL has charged over Rs. 1,000 million as depreciation during the year under review and the amount for the last 11 years was over Rs. 11,000 million. In addition, an amount of Rs. 2,738 million had been charged by the CPSTL as profit margin during the year under review and the total amount that was charged for the last 11 years was Rs. 43,540 million from both CPC and LIOC. However, there were no appropriate evidences to ascertain that the CPSTL had taken proper actions to design and develop new infrastructure facilities and maintain the existing facilities promptly.		management as minimize the cost to the Corporation.
(c)	Additional interest expense of Rs. 699 million had been incurred by the Corporation due to delays in settlement of foreign currency denominated short term loans in the year under review.	Even though CPC has adequate Sri Lanka Rupees in hand, two state banks should be able to sell USD currency to CPC. If sufficient USD is not sold to CPC by two state banks and CPC holds Sri Lanka Rupees in hand. Such funds are invested to mitigate interest expense which may occur on non-settlement of USD loans. Thereby, CPC has earned Rs. 2,574 Mn as interest income against the additional interest expense paid in the year 2020	Appropriate actions to be taken by the management as minimize the cost to the Corporation
(d)	As stated in my previous year reports, the formal agreements for fuel supply had not been entered into with major customers including CEB even at the end of the year under review.	"Signing a Fuel Supply Agreement (FSA) with CEB is in progress with the intervention of both Ministry of Energy and Ministry of Power. However CPC has already entered	The Corporation should take necessary actions to enter into proper agreements with

	into FSA's with major Independent Power Plants such as M/s. Westcoast Power (Pvt) Ltd. for the Yugadhanavi Power Plant & M/s. Sojitz Kelanitissa Private Limited for the Sojitz Kelanitissa Power Station. Further, CPC has entered into FSA with Sobadhanavi limited on 19.07.2021 for the upcoming 350 MW Combined Cycle Power Plant in Kerawalapitiya. As informed by CPC Commercial Function, CPC has entered into FSA with Sri Lankan Airlines.	major customers.

(e) **Hedging Transactions**

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 2020 was Rs. 14,028 million. Moreover, the Commercial Bank had filed a case at the Commercial High Court, Colombo against the Corporation by claiming US$ 8,648,300.	The Supreme Court matter is still pending in this regard.	Appropriate actions to be taken to settle the matter early

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Storage and Distribution of Petroleum Product My special report which assessed the adequacy of the existing petroleum storage capacity that is currently utilized in Sri Lanka, evaluate the appropriateness and productivity of the fuel transport pipeline system, railway and bowser transport system currently in operation in Sri Lanka and make recommendations on measures to be taken for the smooth and safe operation of the petroleum storage	Agreed with the Content.	The corporation should be properly evaluated and appropriate actions to be taken on the recommendations of the report. Measures to be taken for the smooth and safe operation of the petroleum storage complex and fuel

complex and fuel transport systems in the country had been tabled in Parliament. It can be downloaded from the official websites of the National Audit office of Sri Lanka.		transport systems in the country.
(b) Trincomalee Tank Farm The Tank Farm contained of 100 Oil Tanks, each having a capacity of 12,500 cubic meters (m3) (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 instalments and taken over the possession of Land, Tank Farm, Buildings and other equipment with effect from 01April 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 Lanka Indian Oil Company (LIOC) 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.	Agreed with the Background Content. However, since 2016 CPC has prepared several development plans for the Trincomalee Upper Tank Farm and still directive has not been received to those CPC development plans for the usage of the tanks.	It should be paid immediate attention to clear the ownership of farm and initiate petroleum related business using the available resources in the farm.
(c) Sapugaskanda Oil Refinery As stated in previous audit reports, the existing Refinery which had been constructed five decade back (commissioned in 1969) is a basic Refinery and is not being able to cater	"Sapugaskanda Refinery is 49 years old but running even today using the available best suited crude oil at the moment with the modifications and minor upgrading work carried out in the past with change of product	It should be given a greater attention to upgrade the existing refinery and build a new as to satisfy the country demand at lowest cost.

the increasing demand of 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, where by maximizing its operating efficiency. However, the CPC was unable to implement the proposed Sapugaskanda Oil Refinery Expansion and Modernization (SOREM) Project or alternative project in order to ensure supplying of its products to the market in a cost-effective manner. Further, the land acquired by incurring of Rs. 1,003 million for that purpose had been laying idle even up to the date of this report.

specifications and legal requirements. The refinery is not equipped with modern technologies in the world to convert bottom of the barrel to high value products which can increase the profit margin. In addition, with the restricted refinery configuration, the refinery cannot process heavy, sour cheap crudes in the world to increase the profitability.

In the expectation of meeting the country demand, Sapugaskanda Oil Refinery Expansion and Modernization (SOREM) project was initiated around 12 years ago with a comprehensive feasibility study. The project was attractive having the payback period of less than 8 years after USD 2.1 Bn. investment but never materialized due to unavailability of funds from the government. As the project delayed, the increasing product demand of the country has been fulfilled by imported products which finally incur additional costs to the country.

Expecting the SOREM project implementation, 35 acres of land adjacent to refinery was acquired and it is fenced and kept under CPC ownership. Even though the SOREM project was not implemented, the relocation of the road between the new and old land is in progress expecting future utilization of the land for any expansion activity. It has been identified that some critical equipment are required to replace due to aging to run the refinery safely in future. With the above urgent replacement of critical process equipment, USD 90 million was budgeted to replace the above-mentioned equipment while obtaining some modern technologies and upgrading to higher capacity. After completion of the above project, refinery could operate safely for more years and with enhanced profitability. However, the project was suspended expecting a development of overall refinery complex to cater to the total country demand.

It has been noted that the government funds are not possible to obtain for SOREM project implementation and has been identified that the possible option available for meeting the country demand by refining crude oil locally is to welcome investors to build a refinery in Sapugaskanda.
The Cabinet approval was received in the last quarter of 2020 to carry out a comprehensive feasibility study to install a new 100,000 barrels per day refinery on Build-Operate and Transfer (BOT) basis. Based on the decision of Cabinet of Ministers, the feasibility study is in progress to build a new 100,000 barrels per day refinery while developing the existing refinery to produce BURO VI quality products in both refineries expecting to cater to the total country demand.

It has been identified that 35 acres land acquired incurring Rs.1003 million previously for SOREM project and idled at the moment and will need to be utilized when an investor is selected to build the refinery based on the outcome of the ongoing feasibility study to cater to the country requirement and most probably it may be required to acquire more lands for final implementation as the required refining capacity is

	higher now compared to SOREM plan."	

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) Assets Management		
(i) 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 intended purpose and it had been occupied by more than 700 squatters.	This land had been acquired in 1983. CPC has paid Rs. 10,551,567 as compensation. As there are squatters occupying this land, opinion of Hon. Attorney-General was obtained. As per the opinion it states that as there are large families that would be affected and the resultant social impact, it would be most prudent to consult the relevant Ministries and or other authorities before initiating Court proceedings against them. Several attempts were made by CPC through the Ministry of Petroleum to handover the land to UDA and obtain a payment based on a government valuation but was failed. Thereafter, a suggestion was made by the Ministry of Petroleum to sell the land to an investor or to do a project with an investor to obtain monthly payment to CPC and set up a housing scheme for the unauthorized occupants. This was informed to the Land Commissioner General and the reply states there is no provision in the Land Acquisition Act to proceed as suggested.	Steps to be taken to evict the unauthorized occupants and utilize the property for the betterment of Corporation.
(ii) Mahahena Land – According to the correspondence made available, the Corporation had acquired this land by spending Rs. 0.625 million, and it had not been accounted for. However, this land is being utilized by the previous owner	There are 12 allotments of the above land which should be acquired to CPC. The extent of land is 21.18 perches. CPC has deposited a sum of Rs. 624,378 in the Divisional Secretariat, Kolonnawa. The Divisional Secretary has paid the compensation to the owners.	

even after the acquisition in 1986.	The Divisional Secretary had filed actions in the Magistrate’s Court, Colombo to evict the unauthorized occupants. The Divisional Secretary, Kolonnawa has handed over 06 positions from the main land to CPC. Steps have to be taken to file action against the occupants in Sirisanda Hotel and to handover the vacant possession in connection with seven appeals as it had been dismissed by Court of Appeal. Filing action against unauthorized occupants and to handover the vacant possession of this land is vested with the Divisional Secretary.