

Head 115 – Ministry of Energy

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Energy for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statement for the year then ended 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. The summary report containing my comments and observations on the financial statements of the Ministry was issued to the Chief Accounting Officer on 29 July 2022 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Chief Accounting Officer on 16 November 2022 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry of Energy as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer for the Financial Statements

The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

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

- Design and perform Appropriate audit procedures to identify and assess the risk of material misstatement in financial statements whether due to fraud or error in providing a basis for the expressed audit 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year, except for the observation mentioned in paragraph 1.6.3 of this report,
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Property Plant and Equipment

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Even though the cheques had been written at the end of the year, Desktop CPU computer of Rs. 445,000 which had not been formally received to the Ministry up to audited date (07 June 2022) had been added to assets as purchases in the year under review. It had not been disclosed in the financial statements in this regard.	This computer was added to SIGAS Software as an asset by 31.12.2021. It was later returned to that company due to mismatched with the specifications. Thereafter, the selling institution had informed the inability to provide a requested type of computer and accordingly, in the month of May 2022, cheque bearing number 380787 of Rs. 445,000 was credited to Government Revenue. In June 2022, this desktop computer was removed from the SIGAS software and the fixed asset register was corrected.	Assets should be accounted for after the purchase process is completed. Cheques should not be written and kept.

1.6.2 Cash Flow Generated form Operation Activities

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The advance payment under cash flow from operating activities in the cash flow statement for the year under review was Rs. 2,022,233. However, according to the advance accounts that payment was Rs.2,021,516.	The loan installment and interest recovered from the salary of a transferred officer had been erroneously recorded due to an omission and it had been correctly recorded after that error was discovered. However, this has not affected to the balance of Advance B Account.	Debit and credit entries in the advance account should be correctly accounted for under the prescribed subject number.

1.6.3 Deficiencies in the presentation of financial statements

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) A related detail note covering all the comparative values had not been presented in the financial statements.	The financial statements for the year 2021 had been prepared in accordance with the Public Accounts Guidelines 2021/03. Since financial statement format of the year 2021 was different from the year 2020, the Ministry of Finance informed to prepare the financial statement for the year 2020 also in accordance with the Public Accounts Guidelines No. 2021/03 in order to easy comparison with the data of the year 2020. Therefore, when preparing the account of the year 2021, the data of the account of the year 2020 was adjusted accordingly.	Explanatory notes should appear in the financial statements.

- (b) Other receipts balance of Rs. 976,406 which was shown under non-revenue receipts of the audited statement of financial performance for the year 2020 had not been presented in the statement of financial performance of the year under review as the corresponding figure or as the figure related to the restated comparative figure or any other formal disclosure.
- In the year 2020, the income collected for other revenue heads amounting to Rs. 979,406 had been accounted under non-revenue receipts in the preparation of the accounts for the year 2020. However, in the preparation of the accounts for the year 2021, the financial performance statement as at 31.12.2021 had been prepared in accordance with the Public Accounts Guidelines No. 2021/03 without taking into account the income collected under other heads of revenue.
- A proper presentation should be given either previous period's corresponding figure or as the figure related to the restated comparative figure or some other proper way.
- (c) Cash and cash equivalents amounting to Rs. 4,430,717 and imprest balance of Rs. 4,430,717 which was shown under financial assets and the current liabilities respectively in the audited statement of financial position for the year 2020 had not been shown as corresponding figures in the statement of financial position for the year under review.
- Amount of Rs. 4,430,717 which was settled to the Treasury on 31.12.2020 had been stated as cash and cash equivalents under the financial assets and imprest balance under current liabilities in the statement of financial position prepared as at 31.12.2020. However, as that amount had been paid to the treasury as on 31.12.2020, the reconciled account had been prepared without taking into account the said balance.
- A proper presentation should be given either previous period's corresponding figure or as the figure related to the restated comparative figure or any other proper way.
- (d) According to the audited cash flow statement for the year 2020, the imprest receipt was Rs. 38,000,000 and whereas the corresponding imprest receipt shown in the year under review was Rs. 38,297,067. However, the reasons for the difference were not disclosed in the financial statements.
- In the year 2020, this ministry functioned together with the Ministry of Power as a cabinet ministry until 31.08.2020 and from 01.09.2020 it functioned under a separate Head. Amount of Rs. 297,067 had been given by the Election Commission to pay for the officers who attended the election duty had been transferred to newly created Head 115 by the Ministry of Power's Head 119. This difference has arisen on that.
- The reasons for the difference should be disclosed in the financial statements.

2. Financial Review

2.1 Revenue Management

Preparation of revenue estimates

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The initial estimated revenue of Rs. 130 million for the year 2021 had been revised to Rs. 162 million. However, the actual income had been grown up to Rs. 225 million or by 39 per cent compared to the revised estimate revenue. Accordingly, the preparation of estimates was not realistic.	The initial revenue estimate for the year 2021 was Rs. 130 million, which was revised during the year to Rs. 162 million. Although the income was expected to decrease due to the Corona 19 pandemic situation in the country at that time, it was possible to increase the income to Rs. 225 million by the end of the year 2021. The reason for this can be pointed to the increase in the income generated through the registration fees collected due to the increase in the number of establishments that have received approval for the import of lubricating oil and bitumen and the increase in the variable income charged on the import of bitumen.	The Ministry should endeavor to prepare the estimated revenue as accurately as possible.

2.2 Management of Expenditure

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) 12 to 100 percent of the estimated allocation of 15 expenditure subjects had been transferred to other expenditure objects under Financial Regulation 66.	Provisions remained due to restricting the special guests who come to meet the minister and conducting banquets according to health and safety guideline due to the covid pandemic situation was in the country, reducing repair costs due to reducing the use of vehicles, equipment and machinery, kept the use of electricity and water to a minimum, being able to keep cleaning costs to a minimum due to the closure of institutions, no arrangements have been made to relocate the ministry to another building, no ability to purchase machinery, and due to expenditure restraint on managing expenditure in such a way as to bear minimum burden on the treasury whenever possible. Provisions remained due to the cost of insurance was reduced due to the fact that the vehicles in the ministry are more than 5 years old, the lease period of the vehicle obtained on lease basis had not been extended even though it was stated that the lease period would be extended again after the expiration of one year period.	The estimates should be prepared as accurately as possible in terms of F.R 30(ii).

- (b) Between 15 percent and 79 percent of the estimated provision for 07 expenditure objects had been transferred from other expenditure objects under the Financial Regulation 66. Further, during the period, 40 percent to 12,984 per cent of the initial estimation had been obtained through supplementary estimated provisions and transfers under the Financial Regulation 66 for 06 expenditure objects.
- The provisions had to be shifted under FR 66 due to; It had to be transferred allocations from the remaining expenditure codes, instead of obtaining the allocation from supplementary estimates due to insufficient allocations as a result of saying that no additional allocations will be provided on arrival of new officials; incurring expenses for overtime due to non-providing of the requested allocations; participation in foreign conferences held in order to bring investors from other countries related to petroleum exploration to Sri Lanka; increase of maintenance costs of vehicles that are more than 5 years old; due to the complete renovation of the official residence of the minister, lack of adequate provisions for the participation of ministry officials in foreign conferences and conventions; the arrival of officials entitled to transport and fuel allowance and the increase in the cost of fuel due to the provision of transportation facilities to other officials by combined vehicles, inability to purchase new machines and having to repair old machines, etc..
- Do -
- (c) The net allocation related to 02 expenditure objects completely (one hundred percent) and 21 percent to 45 percent of the net allocation of another 4 expenditure objects had been remained unutilized in the year under review.
- Provisions were remained unutilized due to; Even though additional provisions were made due to insufficient provisions as it was necessary to participate in foreign conferences, the Honorable Minister was unable to participate due to unavoidable reasons; Repairs expenditure had not been arisen fully for the vehicles reserved for the Honorable Minister and staff; due to the pandemic situation, the Commodity prices remained high due to limited imports and a high value of the dollar against the rupee; Reduction in maintenance costs due to the closure of offices; no capital expenditure in the first quarters of the year due to the closure of offices due to the Covid-19 pandemic situation was in the country; suspension of new capital projects as per the Cabinet Memorandum issued on 28.08.2021; the activities related to the natural gas policy not being done during the year; etc....
- Do -

- | | | | |
|-----|---|------------------------|------|
| (d) | It was informed that the reasons for the complete saving of the allocations related to two expenditure objects were that "according to the Cabinet amendments issued by the Ministry of Finance on August 21, 2021, new capital projects have been suspended, so the allocations were not utilized." However, no any expenses had been made up to 08 months when the said amendment was made. | No comments were made. | Do - |
|-----|---|------------------------|------|

2.3 Incurring of Liabilities and Commitments

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) According to Public Finance Circular No. 271/2019 dated 03 December 2019 and Public Finance Circular No. 255/2017 dated 27 April 2017, the payments related to the financial year should be released in the same financial year, and no liability should be carried forward with the intention of settlement in the next year and it was also advised that the Treasury would not take any further action to settle the liabilities incurred in contravention to those instructions. However, regardless of those instructions, liabilities had been reached by Rs. 3,146,930 exceeding the remaining cash balance at the end of the year under review.	In the preparation of the annual estimate, the allocations requested in the annual estimates are not provided and additional allocations are not provided in the year 2021. This situation has arisen due to arrangements for transfer under Financial Regulation 66. The relevant officials have been instructed to prevent such a situation occurring in the future.	According to Public Finance Circular No. 271/2019 dated 03 December 2019 and Public Finance Circular No. 255/2017 dated 27 April 2017, the payments related to the financial year should be released in the same year.
(b) According to notes (iii) to the financial statements, at the end of the year under review, the amount of liabilities and commitments was Rs. 3,248,403.97. However, liabilities and commitments of Rs. 3,458,084 was observed at that date.	No comments were made.	Action should be taken to enter the correct balances in the accounts or appropriately disclose in the financial statements.

2.4 Balances of the Public Officers Advance Accounts

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The maximum debit limit from Rs. 2 million to Rs. 3 million and minimum credit limit of Rs. 500,000 to Rs. 2.4 million of the advance account of the Ministry had been increased in the year under review. However, according to Treasury computer printouts, the maximum debit limit of expenditure of Rs. 2 million and the minimum credit limit of Rs. 500,000 were remained. Accordingly, action had not been taken to correct those limits in the Treasury books.	No comments were made.	Treasury balances should be reconciled with the balances in the books of the Ministry.
(b) Although the limits relating to the payment of advances to Government officers had been revised in the year under review, the Advance B Account of Government Officers prepared in terms of Financial Regulation 506(D) did not mention the approved revision limits and the revised limits were specified as the limits authorized by the Appropriation Act.	The limits of Advance B Account were revised in terms of the Cabinet Memorandum dated 26.10.2021. The limit has been entered into the SIGAS program and reported to the treasury through the account summary.	Revision the limits of Advance B account should be correctly shown in accounts.
(c) According to Section 1 of the Financial Regulation 502(b), the accounting officer should ensure that the amount due in respect of the advance accounts is collected without delay. However, since the year 2012, balance of distress loan of Rs. 67,884 of a driver who has left the service has not been recovered up to date even though 09 years have passed.	According to the Attorney General's Department Letter No. PRD/1/3/2/49 and dated 05.09.2022, it was informed that the case bearing No. DMR/5184/2018 assigned to recover this loan amount has been dismissed. Accordingly, further action is to be done.	Actions should be taken to collect the money due.

2.5 Deficiencies in Operation of Bank Accounts

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Even though cheques were written at the end of the year for 02 Toshiba toners totaling Rs. 79,056 that had not been received by the Ministry as of the date of audit (07 June 2021). However, the cheque that had been issued remained as an unpresented cheque at the audited date.	03 toners were ordered on 13.12.2021 but not received till 30.12.2021. Accordingly, due to the urgent need, 02 toners were purchased on 30.12.2021, from the State Trading (General) Corporation and used. However, due to the fact that the purchased toner was directly received by the establishment department and was not reported to the finance department, it was not entered in the inventory books on 31.12.2021, and the relevant cheque has been held without issuing. Then on 24.06.2022, the cheque related to the said payment has been extended and issued.	Cheques should not be written and kept.

3. Operational Review

3.1 Performance

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although it is the duty of the Ministry to formulate, monitor and evaluate policy programs and projects to ensure the quality and reliability of fuel supply, it has not been ensured in audit that the Ministry has introduced and implemented a formal program covering both entities of Ceylon Petroleum Corporation (CPC) and Lanka Indian Oil Company (LIOC).	Necessary matters are discussed in the monthly management meetings held at the Ministry level. In this meeting, review the progress of the projects implemented by the institutions, discuss the issues presented by the audit queries, reviewing, review the organizational, financial and operational activities and make decisions and directions to maintain the financial profitability of each institution and customer satisfaction. Furthermore, by constantly paying attention to the adherence to the corporate affairs, the ordinances / Article of Associations and the relevant agreements, the necessary amendments are also brought to them in time. Apart from that, in the supervision of procurement, organizational, operational and financial important decisions, if those decisions are reached through a committee, the officials of the ministry will also participate in representing the	A formal program covering both the Ceylon Petroleum Corporation (CPC) and the Ceylon Indian Oil Company (LIOC) should be introduced and implemented by the Ministry.

committee.

Although the Ministry cannot directly monitor the Lanka Indian Oil Company (LIOC), only regulatory functions are carried out.

Licenses for bunkering are issued. The terms and conditions relating bunkering are imposed and monitor the implementation of those terms and conditions.

Terms and conditions in relation to the running petroleum filling stations are issued by the CPC and LIOC filling stations are also inspected during randomly selected filling station inspections.

- (b) The Trincomalee Port, the second deepest port in the world in terms of geographical location, has an oil tank system established since 1930, with 102 tanks with a capacity of 12,500 cubic meters and other related facilities. Out of the total 99 existing tanks, 14 lower tanks are used by the Lanka Indian Oil Company. Preliminary decision making for the modernization of 84 abandoned upper tanks had commenced on 29 April 2015, but no action had been taken so far to make the necessary arrangements for the development and rehabilitation of the tank complex. Furthermore, in relation to the development of the oil tank complex, the Ceylon Petroleum Corporation (CPC) and the Lanka Indian Oil Company (LIOC) have established a joint company called Trinco Petroleum Terminal (Pvt) Ltd, however no even a development plan had been developed yet in relation to it.

Due to court proceedings against the implementation of the development proposal submitted earlier for the development of the Trincomalee Oil Tank Farm, the proposal could not be implemented and then the diplomatic discussions with the Government of India regarding the development of this tank Farm were terminated in the last half of 2021. As a result, 14 oil tanks to Lanka Indian Oil Company, 24 oil tanks to Ceylon Petroleum Corporation, and 61 tanks to Trinco Petroleum Terminal (Pvt) Ltd which is a jointly established with Ceylon Petroleum Corporation and Lanka Indian Oil Company had been leased for development.

Trinco Petroleum Terminal (Pvt) Ltd is a company incorporated on 24 December 2021. In this short period of time, the necessary management board and employees have been recruited for the institution and the basic arrangements are being made for the development of the 61 oil tanks assigned to the institution and after a thorough study, a detailed development plan is being prepared in the near future.

The Trincomalee Oil Tank Complex should be developed and rehabilitated and bring to usable.

- (c) Although the feasibility study reports had been presented by an expert committee during the year 2011 to modernize and expand the Sapugaskanda oil refinery as well as to set up a new refinery to cater to local demand, it has not yet been possible to modernize and expand the oil refinery or establish a new refinery.
- A feasibility study has been conducted in the year 2011 regarding the modernization, expansion and construction of a new refinery at the Sapugaskanda Oil Refinery and currently, due to the change in technical and economic factors, a new feasibility study has been conducted by the Ceylon Petroleum Corporation and the following reports have been submitted
- i. The draft calls for proposal of Feasibility report (Draft RFP document)
 - ii. Configuration report
 - iii. Market survey report
- The modernization and expansion of the oil refinery in Sapugaskanda as well as establishment of a new refinery considering the local needs, should be implemented practically.
- Accordingly, proposals are being invited to find a suitable investor for the implementation of this project, and actions are being taken to obtain Cabinet approval for the same.
- (d) It was unable to establish a depot in the Northern Province since the year 2011 after Cement Corporation informed the Ceylon Petroleum Storage Terminal Company to remove the fuel storage depot at Kanakasanthurai.
- The problematic situation regarding the acquisition of the land required for the establishment of the Kankasanthakure fuel storage complex has been resolved and the said land has been transferred to the Ceylon Petroleum Corporation and then handed over to the Ceylon Petroleum Storage Terminal Company on lease basis. The basic plans (Drawings) required for the establishment of the depot complex have been prepared by the Ceylon Petroleum Storage Terminal Limited and discussions have started with the Sri Lanka Railway Department to extend the railway line to ensure access to the relevant land.
- Urgent measures should be taken to establish a Depot for the Northern Province or to modernize and expand the existing Depot.
- (e) Polipto Lanka Company which was established under the Central Environment Authority in 2008 is under the Ministry of Petroleum Resources Development. The factory is established in Horana area and the main function of
- Polipto Lanka (Pvt) Limited had been established as per the joint agreement signed with the Central Environment Authority and Mr. Ananda Withanage dated 19th February 2009 and the amendments as per clause 12.3 thereof, dated 08.12.2009. Later it was included under the purview of the Ministry of
- A suitable program should be prepared and implemented for the active implementation of Polipto Lanka Company and the effectiveness of the

this is to produce fuel using plastic and polythene solid waste. The ownership of this company has been divided as 60 percent to the Ministry, 30 percent to the manufacturer and 10 percent to the Petroleum Resources Research Faculty of the University of Moratuwa. It was observed that the company is currently inactive and investment of over Rs. 80 million in assets and other facilities by the government as well as the investment of the relevant investor is an uneconomic transaction with no expected results. Further, no evidence was available to the audit that the Ministry has any formal program to activate and operate this company effectively.

Petroleum. Although the government initially decided to provide funding as a research and development project, the company was unable to sustain itself due to the difficulty of deploying more funds from the treasury for this project, and on the approval of the Cabinet dated 21.08.2018, the Company was restructured on 26.09.2018. Accordingly, at present, Ministry does not own 60% of the ownership of the said institution. According to the agreement dated 26.09.2018, the assets of the said institution amounting to Rs. 80 million have been transferred to the selected investor for the operation of the said institution and the said value has been charged back to the government. According to the operation and maintenance agreement, this ministry does not have the direct responsibility to operate and maintain Polipto Lanka (Pvt) Ltd. and it should only provide the necessary facilities for the operation of the institution. It is currently inactive due to the delay in granting the scheduled waste management license to the Company by Central the Environment Authority. This Ministry has given the necessary recommendations to the Ministry of Environment and the Central Environment Authority to obtain the said license to Polipto Lanka (Pvt) Company.

cost incurred by the government should be confirmed.

3.2 Non-formal implementation of regulatory roles

3.2.1 Issuance of Bunkering and operating licenses

The following observations are made.

Audit Observation

According to 07 of Schedule 1 and the letter No. DEVF/6/1/23(II) and dated 15 February 2022 of additional secretary to the Ministry of Energy, a statement of their monthly bunkering activities must be submitted by the persons

Comments of the Chief Recommendation Accounting Officer

Due to the Covid-19 situation in the country in the past, the companies engaged in bunkering did not submit statement as

The reports on the monthly bunkering activities should be obtained by the Ministry without delay and

authorized in writing for Bunkering on or before the 18th day of the next month. Nevertheless, in the year 2021, 13 companies with written authority had not formally submitted the statement of their monthly bunkering activities to the Ministry, and among them 05 companies had not submitted any statement. Also, the Ministry had not taken steps to recover over Rs. 180,000 delay charges from institutions that did not submit the reports on due dates. Furthermore, the Ministry had not taken any action against the institutions that did not submit the reports as scheduled.

scheduled and the company has been notified to submit statement as scheduled. All measures have been initiated to recover the delay charges that should have been collected from those institutions.

arrangements should be made to formally evaluate them and the collection of delay charges should be done without delay. Legal action should be taken against the institutions that have not submitted the statements as required.

3.3 Importation and Regulation of Bitumen

The following observations are made.

Audit Observation

According to the Circular No. 2018/01 dated 07 February 2018 of the Secretary of the Ministry of Petroleum Resources Development, bitumen importers should submit quarterly reports to the Ministry regarding the import of bitumen. However, the Ministry had not taken steps to receive quarterly reports from the importers for the years 2020 and 2021. Also, formal action had not been taken against the institutions that did not submit reports.

Comments of the Chief Accounting Officer

Quarterly reports related to import of bitumen were not received by the Ministry from bitumen importers and the information was obtained from Sri Lanka Customs where required. However, the information will be obtained directly from the bitumen importers in future.

Quarterly reports should be obtained from bitumen importers and they should be formally evaluated.

3.4 Standards and Regulation of Petroleum Related Products

The following observations are made.

Audit Observation

(a) Although standards for petroleum-related petrol, diesel and kerosene had been prepared by the Sri Lanka Standards Institute, a formal program to mandate the adoption of those standards in Sri Lanka had not yet been formed by the

Comments of the Chief Accounting Officer

Although the standards for petroleum-related petrol, diesel and kerosene have been prepared by the Sri Lanka Standards Institute, taking into account the condition of the existing infrastructure in the country for the refining, storage and distribution of petroleum products and the condition of

A formal program should be developed for the standards and regulation of petroleum related products.

Ministry. Furthermore, no authorized agency has been established to check the standards of the fuel in Sri Lanka and the Ministry has failed to prepare a formal program for it.

the equipment used for petroleum products, ministry does not have the ability to mandate to compliance all those standards in Sri Lanka. Taking into account the current necessity and capability, the standards of petroleum products were updated by Ceylon Petroleum Corporation under the supervision of this Ministry in the last few years. Furthermore, regarding the updating of new standards for petroleum products, the Sri Lanka Standards Institute will be studied by a committee appointed with the participation of this ministry and other stakeholders and the standards will be introduced by this ministry.

- (b) According to the Cabinet decision No. අම/16/1576/19/06 dated 31 August 2016, as per the joint proposal of the Ministry of Petroleum and the Ministry of Finance, a complete petroleum research laboratory had been established at the Institute of Industrial Technology in order to conduct laboratory tests on petroleum products by a third party in accordance with the terms of the Public Utilities Commission. Nevertheless, no evidence made available to audit that the Ministry has taken steps to get that technical assistance or reach an agreement or memorandum of understanding with that institution. Accordingly, the petroleum research laboratory has been idle for a long time due to lack of attention to the ability to get laboratory tests done on petroleum products by an independent third party.

Ceylon Petroleum Corporation conducts laboratory testing of petroleum products imported into Sri Lanka by ISO 17025 (Internationally Recognized Technical Competency Quality Certificate for Approvals and Test Results) accredited Ceylon Petroleum Storage Terminal Limited Laboratory.

Since the laboratory testing of fuel shipments is a real-time task of expert staff, there should be dedicated laboratory workers who can participate in the tests after the shipment arrives. As CPSTL and CPC have the details of the shipments, it is preferable to check sample of by the laboratory at CPSTL that have the ISO 17025 accredited. In case of first rejection or second sample for shipment or re-inspection, it is important and advantageous to have a fully independent ISO 17025 accredited testing laboratory for petroleum products in the country and the services of this laboratory can be availed in such cases. The laboratory facility is widely used by importers of petroleum products to carry out their laboratory tests.

Adequate attention should be paid to the ability to obtain technical assistance from a third party and steps should be taken to ensure effective utilization of the investment made by a government agency.

- (c) It was not ensured that there is an information system in the Ministry that can provide timely information on the country's demand situation for each petroleum product, exchange needs, other import and production priorities of the country, etc., with regular and interrelationship with other institutions. Accordingly, it is problematic whether the priorities are identified in a way that suits the needs of the country and whether approvals and regulatory activities are carried out for each sector.
- The petroleum requirement of the country is estimated annually based on current information about the country's demand situation, exchange needs, production priorities, etc. for each petroleum product and that information is updated by a stock committee consisting of officials of the Ceylon Petroleum Corporation, officials of the Ceylon Petroleum Storage Terminal Limited, officials of the Ceylon Electricity Board, officials of Lanka Indian Oil Company and officials of this ministry. Furthermore, until the end of 2021, efforts were made to continuously meet the fuel demand in all sectors and due to the current foreign exchange problems, necessary steps have been taken to provide fuel according to priority.
- It is necessary to take appropriate measures to continuously meet the fuel demand in all sectors for each petroleum production, and for that, it is necessary to establish an information system that can exchange timely information by maintaining an interrelationship with government institutions.

3.5 Special Project Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>(a) Cairn Lanka (Pvt) Ltd. which was selected for oil exploration in the M2 exploration area of the Mannar Basin following an international bidding in 2007, had discovered two natural gas deposits during excavations in 2011. This company had terminated its research activities in the Mannar Basin and concluded the contract on 15 October 2015. In addition, IHG Global Company has been selected by international competitive bidding in 2016 to launch exploration activities and marketing campaigns for the commercial production of natural gas, and this company had been incurred USD 300,000 or Rs.46,610,853 according to the</p>	<p>In 2017, under the support and guidance of IHS Global, Expressions of Interest were invited for the development of natural gas deposits located in the M2 exploration block. Marketing promotion discussions were held with investors in Houston, United States of America and London, United Kingdom. Here, every investor who expressed interest in developing these natural gas deposits expected a government commitment for the various sectoral consumption of the produced natural gas, but at that time such a natural gas policy was not implemented in Sri Lanka. Therefore, a National Policy for Natural Gas was formulated from the year 2017 under the guidance of the Secretariat of Petroleum Resources. This National Natural Gas Policy was unveiled in</p>	<p>A formal program should be developed to carry out petroleum exploration activities in the M2 exploration block of the Mannar Basin or commercial production of natural gas in the two identified deposits.</p>

exchange rates prevailing at that time, from December 2016 to August 2018 to launch a marketing campaign. However, the Ministry has failed to carry out exploration of this land or to formulate a formal program for the commercial production of natural gas from the two identified deposits yet.

- (b) The Ministry has failed to take the necessary steps to expedite the completion of the Gravity and Magnetic Survey Data Collection Project in the vicinity of the Mannar Basin that had been launched in 2012. According to the agreement reached by Bell Geospace on 15 August 2019, its activities had to be completed by 2020, however, audit did not yet ascertain that the activities had been completed.

- (c) The Petroleum Resources Development Secretariat had signed an agreement with the National Aquatic Resources Research and Development Agency on 30 September 2015 to launch an island wide project for the collection of maritime environmental data, targeting maritime areas of Sri Lanka. By 28 September 2018, NARA had been paid a sum of Rs. 37,165,283 being the total contract cost of this

October 2020. Further, in 2019, a small round of bids was called for the development of these gases. However, it was not possible to select a suitable operator for this purpose and under the new Petroleum Resources Act, the process of selecting a suitable investor has been started again.

According to this agreement signed in 2019, Bell Geospace was given approval to collect data after confirming the pre-commitment within 180 days. However, due to the impact of the Corona (Covid) pandemic, this company could not carry out this data collection expedition with full commitment in the year 2020. Thereafter, under the guidance of the Ministry, Bell Geospace was given the relevant Cabinet approval to extend this data collection until 2021. As a result, the company collected about 17,000 line Km of airborne gravity/magnetic data covering M1, M2, C1 and C2 exploration plots within Sri Lankan airspace in two phases between August and December 2021. This data has already been subjected to analysis processes (Data Processing) and marketing and promotion activities are proceeding.

Due to the lack of qualified officers to operate the information technology system of the Sri Lanka Petroleum Development Authority, the web server containing this data was installed at the National Water Resources Agency (NARA). NARA under the supervision of Sri Lanka Petroleum Development Authority updates this online database and any investor can access this data online.

The Ministry should take necessary steps to complete the data collection project through aerial gravity and magnetic surveys in the vicinity of the Mannar Basin.

In order to launch an island-wide marine environmental data collection research project, trained personnel who can manage the information system with a proper understanding of the data should be recruited and the

project. However, due to the lack of trained officers who could operate the data system with a proper understanding of data and due to the lack of necessary infrastructure facilities, it was not yet able to establish the web server machine containing this data and use it formally.

necessary infrastructure should be developed.

3.6 Delays in project execution and abandonment of projects

According to the information submitted to the audit, the Ministry of Energy had planned to implement 52 projects in the year 2021. The following observations are made in this regard.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>(a) Rs. 575 million had been estimated to operate and develop regional flights in Palali Airport. According to Cabinet approval No. 18/1229 dated 06 June 2019, the project was expected to complete the construction of the terminal by the end of the second quarter of 2020, and in 2021, the bidding and award of contracts, major equipment (storage tanks and distribution modules, fuel stations) etc) in terms of the ICB process were to be imported and installed. However, these tasks had not been completed and the progress of the overall project in the year 2021 was about 3 percent.</p>	<p>This project was started to supply aircraft fuel in Palali Airport and due to the factors affected by the Covid-19 pandemic situation in the last two years, the management of the Ceylon Petroleum Corporation took steps to temporarily suspend this project. However, necessary arrangements are being made in order to implement this project in the year 2022.</p>	<p>The feasibility of project implementation should be studied and implement promptly.</p>
<p>(b) For the construction of storage at Colombo port Rs. 75 million was estimated, for which in relation to the year 2021 Rs. 39 million had been allocated. Although 40percent of the construction work was targeted to be completed in the year under review, the project has not yet commenced.</p>	<p>As it will be built in Colombo Port Authority land, the permission of the Port Authority has to be obtained for that. The project could not be commenced within the stipulated time due to the delay in giving the permission,</p>	<p>The feasibility of project implementation should be studied and implement promptly.</p>

- | | | | |
|-----|--|---|---|
| (c) | Forty (40) million dollars had been estimated to construct a re-gasified liquefied natural gas (R-LNG) pipeline from the Floating Storage Reprocessing Unit (FSRU) located about 5 km from the Kerawalapitiya coast to the Kerawalapitiya and Kelanitissa power plants. In the year 2021, it was reported that there was less than 5 percent progress. | Ceylon Petroleum Corporation called for proposals for the construction of liquefied natural gas transportation pipelines from Kerawalapitiya coast to Kerawalapitiya and Kelanitissa power plant and the evaluation of the proposals for that was done in the year 2021. However, the project has not achieved the expected progress due to ongoing Covid-19 pandemic throughout the year, | The project should be implemented promptly. |
| (d) | Project No. 2035 – Rs. 500 million had been estimated for acquisition of remaining land for SOREM project. However, the legal issues related to land acquisition have not been resolved and the project has not been started. | Even though Rs. Mr. 500 has been estimated for acquisition of remaining land for SOREM project, the Biyagama Divisional Secretariat should complete these acquisition activities after solving the legal issues related to these land acquisitions, after solving the problems, it will be possible to pay this money to the relevant parties and Ceylon Petroleum Corporation is working to expedite this acquisition. | Do - |
| (e) | Project No. 2036 - Rs. 250 million had been estimated to reconstruction the road at Mabima. However, the project has not yet been started due to the delay in the related land acquisition, | The Biyagama Divisional Secretariat is carrying out the process of acquiring the land required for the reconstruction of this road and it is planned to start the work on the project after acquiring the land. | The feasibility of project implementation should be studied and implement promptly. |
| (f) | Although the 9 oil tanks project with a capacity of 93,000 cubic meters to be built at the Kolonnawa storage terminal should have been completed and put into use in the years 2022 and 2023, the progress of the project is currently at a very low level, and some construction activities have been stopped in the middle of the expected period. Therefore, it is also observed that it is problematic to complete the work within the time frame. | The Tanker 9 project with a total capacity of 93,000 cubic meters to be built at the Kolonnawa terminal has two phases. The construction of 03 Tankers of 29,000 cubic meters is in the final stage and the construction of the remaining 06 Tanker has been suspended due to the poor performance of the contractor. Ceylon Petroleum Storage Terminal Limited is being taking legal actions for that. | Prompt actions should be taken to complete the work within a specified time frame. |

3.7 Losses and damages

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Losses and damages relating to the 17 accidents amounting to Rs. 1,064,226 were existed where at least 4 years elapsed since the accident as at 31 December 2021. However, no action had been taken to recover the loss or write off from the books in accordance with Financial Regulation 104.	As of 31.12.2021, the total of losses and waivers carried forward was Rs.1,064,226, but as of today, the loss of 04 road accidents which is Rs.103,635.77 has been written off. Furthermore, Rs. 152,844.37 losses related to 02 vehicle accidents have been presented to the relevant authorities for write off. For vehicle accident bearing WPPE-9461 Rs. 23,352.24 is being processed to be recovered from the relevant party. Apart from those activities, the remaining total loss of Rs. 784,393.62 is already being expedited.	Actions should be taken to recover the loss or write it off in books as per Financial Regulation 104.

4. Achievement of Sustainable Development Goals

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Even though “sustainable clean energy” had been identified as the sustainable objective directly related to the Ministry, no any evidence was presented to audit to ensure that any project has been planned or implemented to achieve that Sustainable Development Goal. The Ministry had not identified the required financial provisions for that and had not identified a methodology for utilizing the existing physical resources and staff of the Ministry for that purpose and for regulating the activities related to achieving the Sustainable Development Goals.	<ul style="list-style-type: none">• "Affordable clean energy" has been identified as the sustainable development objective directly applicable to the Ministry and the following projects are being implemented to achieve that sustainable development objective.• In order to introduce liquefied natural gas for electricity generation in Sri Lanka, the Ceylon Electricity Board and the Ceylon Petroleum Corporation have jointly started a project consisting of Floating Storage Regasification Unit, Mooring System and Pipeline, and in that project, the pipeline from the Kerawalapitiya Regasification Unit to the Kelanitissa Power Plant had been implemented by the Ceylon Petroleum Corporation. Project proposals were invited to select an investor to implement the project in the year 2021 and the evaluation of the proposals received is currently underway.	A project should be designed and implemented in such a way that the sustainable development goal of “affordable clean energy” is met. Financial allocations should be identified and a method of deploying the existing physical resources and staff of the Ministry for that purpose and a method for regulating the tasks related to achieving sustainable development goals should be identified and implemented.

- The National Policy on Natural Gas was drafted and published on 17.10.2020 to prepare a legal regulatory framework for the medium and downstream natural gas markets, and the preparation of the Gas Utilization Master Plan is currently underway.
- Action had been taken to introduce internationally accepted minimum standards for lubricants in Sri Lanka in 2021.

5. Human Resources Management

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) At the end of 2021, the approved cadre of the Ministry consisted of 93 and the actual staff at that date was 70. Accordingly, there were 23 vacancies including 07 senior level officers.	At present, as there is no requirement to fill the position of Chief Engineer, Legal Officer and Accountant among the 04 vacancies in the senior category, the activities of filling those vacancies have been temporarily suspended. The duties of Assistant Director (Procurement) currently vacant are temporarily being performed by Assistant Director (Administration).	If the shortage of staff adversely affects the performance of the Ministry, the vacancies should be filled or if not, the number of staff should be revised.
(b) The Ministry is responsible for giving the necessary approvals for the operation of lubricating oil, bitumen, bunkering business etc... and regulating thereof. Although a staff consisting of professional officers with specialized technical knowledge related to each subject is necessary for the control and regulation of these fields, it was observed that there are no such professional officers in the Ministry and that the institutional framework had not been prepared to enable the formal performance of these tasks.	Recognizing the need to regulate the petroleum-related industry, several Cabinet papers had been submitted to establish a regulatory body and seek approval for its role. After consideration of last Cabinet Memorandum submitted, by the Cabinet Decision No. 21/1867/325/020-1 dated 25.10.2021, the need to negotiate with the Treasury Secretary regarding an amendment to the Ceylon Petroleum Act No. 28 of 1961 including the regulation of the petroleum related industry had been emphasized. Accordingly, on 21.12.2021, this matter was discussed with the Treasury officials. Accordingly, on 21.12.2021, this matter was discussed with the Treasury officials. Accordingly, it was decided that it would be more appropriate to carry out these regulatory tasks as a collective task of	It is necessary to provide necessary approvals to operate the business of lubricating oil, bitumen, bunkering etc. in Sri Lanka and to fill a staff consisting of professional officers with specialized technical knowledge related to the basic regulatory activities of the respective sectors or to prepare an appropriate institutional framework.

several institutions, taking the contribution of officers with expertise in the relevant fields in necessary cases, rather than hiring officers with special technical and professional knowledge at a regular additional cost to the Ministry and establishing a new regulatory division.