

Fuel Price Stabilization Fund - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Fuel Price Stabilization Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of income, cash flow statement for the year then ended, and notes to the financial statements, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the fund as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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 Generally Accepted Accounting Principles, 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 fund'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 fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

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

1.4 Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 fund'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 fund 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 fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the fund has performed according to its powers, functions and duties; and
- Whether the resources of the fund 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 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) A sum of Rs.47,472,450,000 had been given to the Fund by issuing Treasury Bills without taking proper provisions in year 2020 by Department of Treasury Operations and classified as liabilities in financial statements. The financial liabilities amounting to Rs.26,673,196,758 were remain further by the end of the year under review and out of that Rs.1,107,478,000 had been released by 15 June 2022. The sufficient money had not been available in the Fund to release the balance liabilities. Therefore, it was observed that there was material uncertainty about the insolvency of the Fund.	The actions will be taken according to the policy decision made by government in future regarding the Fuel Price Stabilization Fund.	The future actions should be taken in respect of the liabilities included in the financial statements on a proper approval.
(b) Although a committee should be appointed to manage the above Fund as per Cabinet Decision No.20/0684/204/060 dated 02 April 2020 and Paragraph 02 of even No. of Cabinet Memorandum dated 31 March 2020, the appointment letters issued to officers of that management	The committee including five members had been appointed to manage the Fund according to the Cabinet Memorandum No. MFE/ERD/17/CM/2020/072. Accordingly, the officers who	The actions should be taken to make formal appointments and to issue orders.

committee and the details of the orders given to them were not submitted to the audit.

appointed to relevant posts will act as members of this committee.

- (c) The intended objective of establishing the Price Stabilization Fund is to maintain a stable price by controlling the price fluctuations during price increases and price decreases. An accumulated net surplus of Rs. 22,434,531,371 had been earned by Fuel Stabilization Fund during the period from March 2020 to January 2021 due to the sale of fuel at an existing price by imposing surcharges on imports where there was price decrease in world market. Even though that surplus can be maintained as a liquidity asset to keep up the local price steadily, when the prices are increasing in the world market, it had not been mentioned in the Cabinet Decision and as per the its approval, the amount of Rs.48 billion had been provided to the Electricity Board as capital contribution during the year 2020 and it was also stated under investments in financial statements in the year 2021.

The main objective was to control the increase in fuel price by making good financial position of the Petroleum Corporation. Accordingly, it had been maintained the stable price till the previous price revision though there were price increase in world market in year 2020 and first period of month of January 2021. It was emphasized that, the Fund had not deviate from its objectives since this mechanism led to maintain stable not only the fuel price but also the electricity charges.

The advantage of price decline in world market should be used in most effective objectives.

1.5.2 Going Concern of the fund

----- Audit Observation -----	----- Management Comment -----	----- Recommendation -----
As a result of the decision taken by the management of the Fund as this Fund does not have a going concern, a sum of Rs.48,000,000,000 which invested on capital contribution in Ceylon Electricity Board without having proper provision under Department of Public Enterprises had been classified as current assets. It was not explained to the audit, the way of realizing it within twelve months after the reporting period practically.	There may be material uncertainty in going concern when there were insufficient funds for going concern of public sector institution or the policy decisions which affected to services offered to the public by government. Matters such as, an inability of expecting price decrease in a barrel of crude oil in world market in next few years, an inability of estimating favorable changes in foreign exchange rates and the comprehensive income sources were not available for this fund and the surcharge imposed on the fuel price is the only income source were reasoned for that.	Preparation and presentation of Financial Statements should be done formally.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
F.R. 876 included by 15.1 paragraph of Public Finance Circular No. 01/2020 dated 28 August 2020.	Although the approval had not been given by Parliament to collect revenue and make expenses beyond the article 149 of the constitution of Democratic Socialist Republic of Sri Lanka, this Fund was started from 18 March 2020. The approval of Parliament according to the F.R. 876 included by 15.1 paragraph of Public Finance circular No. 01/2020 dated 28 August 2020 had not been taken by 11 July 2022.	The future steps will be taken for obtaining proper approval for dissolving this Fund and after obtaining as such, to take actions to settle of its transactions and liabilities by General Treasury and liquidation.	The actions should be taken as per the provisions in the Constitution.

2. Financial Review

The operating result of the year under review amounted to a surplus of Rs.728,619,209 and the corresponding surplus in the preceding year amounted to Rs.21,705,911,662. Therefore an deterioration amounting to Rs.20,977,292,453 of the financial result was observed. The reasons for the deterioration is mainly due to the removing the surcharge from Sri Lanka Customs.

3. Operational Review

3.1 Management Inefficiencies

The following observations were made.

Audit Observation	Management Comment	Recommendation
<ul style="list-style-type: none"> Establishing and maintaining the Fund As per the Note submitted by the Director General of the Department of Trade and Investment Policy on 11 March 2020 to the Minister of Finance, Economic and Policy Development for approval through the Secretary to the Treasury, it had been informed that the price of crude oil in the international market had decreased by 42.5 per cent by 09 March 2020 and a barrel was about US Dollar 		

34.63 at the time and it was US Dollar 59.73 by the month of September 2019.

According to the calculations submitted to the audit in this regard, the price of a liter of fuel was expected to fall as follows due to the decline in crude oil prices.

**Price Adjustment
(approximately per liter)**

Rs.

Petrol 92 Octane	12
Petrol 95 Octane	15
Auto Diesel	14
Super Diesel	20

The evaluations had been carried out under 04 alternatives as providing the entire provision of the advantage of this price reduction to the public after recovering the tax concessions granted, increasing of the tax collection and get the total benefit to the government revenue, reducing the retail price of fuel and recovering of losses incurred by fuel suppliers during the last 05 months without changing the fuel price.

However, the approval of the Minister of Finance, Economic and Policy Development had been expected to impose surcharges under the Customs Ordinance or reduce market prices for the savings of price decrease as Rs.11 for auto diesel, Rs.15 for 95 octane petrol, Rs.20 for super diesel as per the paragraph (b) of the Note of the Director General of Department of Trade and Investment.

Accordingly, the surcharge to be levied with fuel related duty as follows had been prescribed with effect for a period of 02 months from 14 March 2020 by Extraordinary Gazette Notification No. 2166/35 published on 13 March 2020.

Surcharge (per liter)

Rs.

Petrol 92 Octane	0
Petrol 95 Octane	15
Auto Diesel	11
Super Diesel	20

Subsequently, the value of surcharge had been amended by the Extraordinary Gazette Notification as follows in the instances of the fluctuations of the price of crude oil in the international market.

Gazette No	Date	Petrol 92 Octane	Petrol 95 Octane	Rs. Auto Diesel	Super Diesel
2172/6	2020.04.22	26	49	24	40
2181/13	2020.06.24	0	20	12	30
2189/57	2020.08.23	0	20	12	30
2203/1	2020.11.23	0	20	12	30
2213/7	2021.02.01	0	0	0	0

The order issued by the Extraordinary Gazette Notification No. 2203/1 dated 23 November 2020 had been cancelled by the Extraordinary Gazette Notification No. 2213/7 dated 01 February 2021 with effect from 02 February 2021.

The following observations were made in this regard.

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| (a) | A methodology had not been prepared to pay Rs.25,565,718,758 to Treasury by Fuel Price Stabilization Fund even by 15 June 2022 since this surcharge was eliminated due to the increase of fuel price in foreign market. Further, this surcharge has to be charge per liter from 20 February 2021 had been nullified. Accordingly, a problematic situation has arrived in relation to settling this money. | Actions will be taken as per the future policy decision to be made. | The liabilities of the fund should be settled formally. |
| (b) | Although the amount to be paid to the Department of Treasury Operations by Fuel Price Stabilization Fund as at 31 December 2021 was Rs.26,673,196,758, due to the face value of Treasury Bills corresponding to that value was being Rs.29,200,746,758, the clear methodology had not been introduced to settle that difference of Rs.2,527,550,000. | Actions will be taken as per the future policy decision to be made. | The liabilities of the fund should be settled formally. |

- (c) According to the cabinet Memorandum No. 20/0684/204/060 which had been presented by the Prime Minister on 31 March 2020, although the summary of the Statement of Financial Position of Fuel Price Stabilization Fund should be published with the annual report of the Finance Ministry, it had not been done as such. Agreed. The information should be reported as per the Cabinet Decision.
- (d) Although the Secretary to the Treasury was ordered to take necessary steps to release the funds of Rs.48 Billion from the Treasury to strengthen the Fuel Price Stabilization Fund as per the decision taken at the Meeting of Cabinet Ministers held on 18 January 2021, the order had not been executed even by 31 December 2021. The amount of Rs.48 Billion had not been released yet due to the economic crisis arisen within the country at present. The actions should be taken to strengthen the fund as per the Cabinet Decision.