Ceylon Petroleum Corporation and its subsidiaries - 2022

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1 Financial Statements

1.1. Qualified Opinion

The audit of the financial statements of the Ceylon Petroleum Corporation (Corporation) and its subsidiaries ("Group") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation and its Group as at 31 December 2022, and of their financial performance and their 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

1.4. Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional 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 of the Corporation and the Group.

- 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 Group'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 Group 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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 Standards

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) According to the paragraph 32 of LKAS 01, gains and losses should separately be presented. However, in contrary to such provisions, the exchange gain of Rs.108,997.26 million had been offsetted against the exchange losses of Rs.636,074.24 million in the financial statements of the year under review.	CPC has disclosed the exchange rate variation as a separate line item in the income statement. Further, as this is material in most of the years, same practice has been adopted.	Should be complied with Accounting Standards.
(b) According to the paragraph 97 of LKAS 01, "when items of income or expense are material, an entity shall disclose their nature and amount separately". However, the nature and amounts of the exchange gain of Rs.108,997.26 million and exchange losses of Rs.636,074.24 million had not been separately disclosed in the financial statement.	CPC has disclosed the exchange rate variation as a separate line item in the income statement. Further, as this is material in most of the years, same practice has been adopted.	-Do-

(c) According to the financial statements of the Corporation, payable balances totalling to Rs.6,303 million had been netted off against the debit balances in Trade and Other Receivables as at the end of the year under review in contrary to the paragraph 32 of LKAS 01.	Noted.	-Do-
(d) Fully depreciated assets amounting to Rs.3,191.08 million had been continuously used by the Corporation without being reassessed the useful economic lifetime of them and accounted for them in compliance with LKAS 16 and 22 lots of land belonged to the Corporation as at the end of the year under review had not been re-valued.	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.	-Do-

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 the Ceylon Petroleum Storage Terminal Ltd (CPSTL), a subsidiary, was Rs.6,211.04 million which comprised the amount payable to and receivable from the CPSTL of Rs.7,458.10 million and Rs.1,247.06 million respectively. However, as per the approved financial statements of the CPSTL, the net amount receivable from Corporation was Rs.7,164.20 million which comprised amount receivable from and payable to the Corporation of Rs.8,000.36 million and Rs.836.16 million respectively. Therefore, a difference of Rs.953.16 million (Rs.542.26 million and Rs.410.90 million respectively) was observed in the intercompany balances of two entities.	The difference of Rs.542.26 Mn. between intercompany payable balance of CPC and CPSTL was very clearly identified.	Appropriate action should be taken to clear all disputed balances and correct figures should be included in the financial statements.

(ii) A Claimable loss of Rs.14.57 million from CPSTL during the year under review had not been recorded in the financial statements for the year under review. As a result, net intercompany payable balance and the operating expenses of the Corporation had been overstated by similar amount.	Management comments had not been provided.	(i.) Appropriate action should be taken to record the correct figures and recover. (ii.) All transaction/events should be recorded in the financial statements.

(b) Consolidation of Financial Statements

(i) Financial Statements of CPSTL for the year 2021 have been restated in the year under review. However, the effect of that restatement had not been adjusted or made a disclosure in the Consolidated Financial Statements of the year under review. Consequently, variances in the Other Operating Expenses, Income Tax Expense, Inventories, Income Tax Receivable and Retained Earnings of Rs. 27.01 million, Rs.6.48 million, Rs.121.62 million, Rs. 29.19 million and Rs. 92.43 million were observed respectively.	Ceylon Petroleum Storage Terminals Limited (CPSTL) has not prepared and submitted the final approved financial statement of 2022 before 28.02.2023 in order to consolidate and therefore, CPC has prepared the group financial statements for the year 2022 considering the draft financial statements available on 21.02.2023 for the preparation of the consolidated financial statements.	Correct figures should be included in the consolidated financial statements.
(ii) Differences of the Cost of Sales by Rs. 121.62 million, Income Tax by Rs.29.189 million and Retained Earnings by Rs. 29.19 million were observed between the amounts used to prepare the Consolidated Financial Statements for the year 2022 compared with the approved Financial Statements of CPSTL for the year 2022.	CPC prepared the consolidated financial statements based on the available most accurate financial statements of the subsidiaries (CPSTL and TPTL). However, CPSTL has not prepared and submitted the final approved financial statement before 28.02.2022 in order to consolidate.	Correct figures should be included in the consolidated financial statements.

(c) Sales Commission to Dealers

	CPC may need to waive off over an amount of twenty billion rupees, which has	Immediate action should be taken to implement the board

The Dealers' commission has been paying disregarding the upper cap on dealers' commission as per the Board Decision No.05/1231 dated 30 July 2019, the Board had approved, in principle, a commission rate of 3% to Dealer Operated Dealer Owned dealers and 2.75% to the Corporation Owned Dealer Operated dealers as a temporary measure for each product between the upper and lower limits. A fixed commission rate of 2 per cent was granted for kerosene. Accordingly, over paid dealer commission of Rs.12,410.44 million during the year 2022 had been recorded as selling and distribution expenses. Accordingly, accumulated overpayment of dealer commission as at 01 September 2023 was Rs.23,576 million. The Petroleum Dealers' Association and four other dealers filled cases against the implementation of the above board decision and District Court of Colombo issued an enjoining order to maintain status-Quo. However, even the enjoining order had been vacated on 15 July 2022, Corporation failed to implement the board decision. Thereafter, dealers had filled a case again in the high court of civil appeal and court had been issued interim orders preventing CPC from paying dealers' commission as specified by the above-board decision. However, Corporation has failed yet to convinced the court about severe negative impact of preventing paying dealers' commissions disregarding the upper cap and vacate the enjoining order in order to save the public Corporation's money.	been calculated and accounted to dealers' accounts in the SAP due to crossing over the upper cap limits owing to unexpected fuel prices hikes since this recovery mechanism may not be practical in the competitive marketing environment.	decision and the overpaid commission should be recovered fully.

(d) Kerosene Subsidy

The 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 instruction given by the letters No.	Reimbursement has not been made by the government after reimbursement of Rs. 4,459 million and General Treasury is also not confirming the reimbursement of the	Appropriate action should be taken to recover all the unrecovered subsidies and all the applicable taxes to be paid in

FP/06/100/02/2016 dated 24 November 2015 and the No. TTIP/1/83(1)T dated 04 December 2014 of the of the Secretary to the General Treasury. Even though the total amount of subsidy recoverable for the period from 2014 to 2022 was Rs.74,626.54 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 was amounted to Rs.70,167.26 million, only a sum of Rs.5,097.72 million had been accounted for. Further, all direct and indirect taxes on that income also had not been accounted for and paid.	Kerosene subsidy. Accordingly, CPC has not recognized the Kerosene subsidy in the financial statements due to the substantial doubt for the recoverability. However, the continuous follow-ups are in the process to recover balances.	terms of tax law.

1.5.3. Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
(a) According to the records of the Corporation, amount receivable from Sri Lankan Airlines at the end of the year under review was USD 301.3 million, whereas as per the balance confirmation received from Sri Lankan Airlines, amount payable to the Corporation was USD 235.5 million. Therefore, an un-reconciled difference of USD 65.8 million equivalents to Rs.21,070 million was observed between those two records.	Relevant information for the reconciliation purpose were requested from the Sri Lankan Airline and yet to be received. However as per Cabinet decision No:MF/PE/011/CM/2023/152 and dated 26.06.2023, the General Treasury has agreed to settle the outstanding balance as at 30.04.2023 by Sri Lankan Air Line Limited.	Appropriate action should be taken to clear all the un reconciled differences between entities.
(b) According to the financial statements, Social Security Contribution Levy (SSCL) liability at the end of the year under review was Rs.3,249.6 million and as per the Social Security Contribution Levy returns submitted to the Inland Revalue Department it was Rs.3,254.5 million. Therefore, un-reconciled difference of Rs.4.9 million was observed in balance shown in the financial statements and Social Security Contribution Levy Returns.	CPC collects the SSCL from the miscellaneous other income customers and pays to the DIR. The net (net of tax) amount generated from the other income has been recorded as the other income and therefore, the amount of Rs. 4.92 is not included as the SSCL expense ledger.	Correct tax liability should be recorded in the financial statements.

(c) Total disallowed Value Added Tax as per the Financial Statements was Rs.1,348.6 million whereas as per the Value Added Tax returns, it was Rs.1,213.6 million. Therefore, an un-reconciled difference of Rs.135.1 million was observed between those two balances.	CPC has computed the VAT as per the financial statements and amended the return. Quarter-wise VAT returns related to year 2022 will be amended to match with the financial statements.	Appropriate action need to be taken to clear all the unreconciled balances with IRD.
(d) According to the financial statements for the year 2022, the amount receivable from CEB at the end of the year under review was Rs.68,454.6 million whereas as per the records of CEB it was Rs.63, 834.6 million. Therefore, a difference of Rs.4,620.0 million was observed between those two records. Out of that, difference amounting to Rs.753.6 million had remained outstanding over 5 years without being cleared.	Noted	Appropriate action should be taken to clear all the un reconciled differences of CEB and long term outstanding should be recovered immediately.

1.5.4. The Audit Opinion on the Financial Statements of the Subsidiary Companies

An unqualified audit opinion was issued on the financial statements of the subsidiary Company of Trinco Petroleum Terminal (Pvt) Ltd, by me. The audit opinion on the financial statements of the Ceylon Petroleum Storage Terminals Limited (CPSTL), the other subsidiary, for the year under review was qualified by me based on the following observations.

Audit Issue	Management Comment	Recommendation
(a) According to the paragraph 34 of LKAS 12, a deferred tax asset shall be recognized for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. However, the Company had not recognized differed tax asset of Rs.274.7 million relating to the unused tax loss of Rs.915.3 million for the year under review.	The omission was inadvertently missed out in preparing the differed tax calculation for the year 2022.	should be complied with accounting starnderds.

(b) The fully depreciated assets valued at Rs.8,391.6 million which comprises 24,175 items are being continuously used by the Company without reassessing the useful economic lifetime of those assets and accounted them contrary to the paragraph 51 of LKAS 16. Further, the Company had not re-valued its assets since the inception in 2003 of the Company and a proper revaluation policy was not established for this purpose. Hence, the non-current assets shown in the financial statements had not reflected the fair value of such assets.	The Company is planning to obtain the necessary approvals from Ministry & Board of directors w.r.t. valuation of fixed assets in the near future.	-Do-
(c) The property plant and equipment valued at Rs.36.8 million had been presented in financial statements for the year under review as working progress despite the constructions activities of those assets were completed and available for use as at 31 December 2022 and depreciation of such assets had not been started as per the paragraph 55 of the LKAS 16.	CPSTL will capitalize cost of capital projects once the project completion certificate or confirmation given by the Engineering function for overall completion of the project at the time of hand over of responsibility to user function for commencement of operations or utilization of capital assets.	-Do-

1.5.5. Going Concern of the Corporation

Audit Issue	Management Comment	Recommendation
Attention is drawn to the matter that the operations of the Corporation had resulted in a loss after tax of Rs. 615,053 million for the year 2022. Heavy losses incurred during the past years mainly due to the continues negative impact of exchange rate fluctuations, increasing in finance expenses due to significant increase of short terms borrowings, inappropriate pricing policy and also the negative impact of heavy losses incurred by the Corporation due to hedging transactions taken place during the previous years had caused further erosion of the net assets of the	Noted. Ceylon Petroleum Corporation (CPC) is operating as per the corporate plan and action plan and confident that CPC can operate for enforceable future. Therefore, CPC believes that, CPC operates without going concern issue and accordingly CPC prepared the financial statements.	The management should pay special attention to enhance the financial stability of the Corporation.

Corporation. Even though, the loans and bills to Bank of Ceylon and People's Bank amounting to Rs. 884,093 million had been transferred to the General Treasury and same amount had been recognized as equity inflows on 31 December 2022, the Corporation had recorded a negative net assets position of Rs. 85,712 million furthermore as at the end of the year under review. Thus, the ability of the Corporation to continue as a going concern without the financial assistance from the Government is in doubt.

1.5.6. Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
Written-off receivable balances		
(a) The Board (The Board Decision No. 08/1252 dated 22 July 2021) had approved to write-off the receivable balance amounting to Rs.1,516 million from the books of accounts of the Corporation due to lack of sufficient information. However, as iterated in previous audit reports, it was unable to ascertain in audit whether the Board had taken proper action to check any possibility of occurring fraudulent activities in relation to such transactions or events before taking a decision to write-off the receivables. Also, action had not been taken against the officers who had been responsible to maintain documents relating to that balance up to date. Further, it was unable to ascertain in audit whether the Corporation had complied with the requirements of the Public Finance Circular No. 01/2020 dated 28 August 2020 in this regard.	The write-off balances were appearing from the ledger by passing entries in the year 2011. Sufficient documents,details and information of these entries were not available in SAP system and cannot be located in Finance Function. On the other hand as sufficient information and records were not available in physically, recoverability of these amounts are not possible.	It should be adhered to the Circular and proper records should be maintained while improving the IT general controls.
(b) As iterated in previous audit reports, sufficient and appropriate evidences relating to debit balances of trade and	Out of Rs.193.217 Mn. , Rs.23.256 Mn. Has been subsequently settled. Thus amount consists of Rs.130.940 Mn. receivable from	Sufficient and appropriate evidences should be made available

other payables amounting to Rs.39.0 million were not made available to audit. Accordingly, accuracy and existence of those balances could not be satisfactorily verified in audit.	PV Oil which has a leagal case.	for audit.

1.5.7. Accounts Receivable and Payable

Audit Issue	Management Comment	Recommendation
(a) There was a difference of Rs.413.8 million between the trade receivable balances shown in the financial statements and balance confirmations received directly from 48 customers. Out of those 48 customers, the balance confirmed by 12 customers had been greater than the amount shown in the ledger accounts by Rs.32.9 million while the balance confirmed by other 36 customers had been lower than the amount shown in the ledger accounts by Rs.380.9 million.	The reasons for these differences of MUF, dealer's incentives, O/P commissions, unrealized cheques etc.	Appropriate action need to be taken to clear all the unreconciled balances.
(b) According to the age analysis of the trade receivables shown in the financial statements of the year under review, 69 debit balances with the amount of Rs.908.0 million, and 44 credit balances with the amount of Rs.8.7 million had been remained unrecovered/unsettled for over 05 years. Accordingly, the accuracy and existence of those balances were unable to ascertain in audit.	As per trade receivable debit balances of 75 customers which are in over 5 years, have been identified and working ro clear them with the relavat approvals.	Appropriate action should be taken to recover or get remedial action on long term outstanding receivable balances.
(c) Twelve debit balances amounting to Rs.137 million outstanding for over 05 years, and 13 debit balances amounting to Rs.44 million outstanding from 01 to 05 years, had been shown under the trade and other payables in the financial statements of the Corporation as at the end of the year under review. Furthermore, it was observed that the Corporation had made transactions with those parties later on without being	This consists of Rs. 130.940million receivable from PV Oil which has a legal Case. Checking of the other debit balances are in progress. Further request has been made to banks for the release of shipping guarantee which are over 05 years.	Appropriate action should be taken to settle or get remedial action on long term debit balances of trade and other payables.

taken immediate steps to get recovered the debit balances. Therefore, the accuracy and existence of those balances were doubt in audit.

1.6. 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 01/2021(i) of 16 November 2021 – Operational Manual for State Owned Enterprises			
(i) Guideline 2.3	The Corporation had not prepared manuals including all major activities for the Lubricant Business, Bitumen Business, Bunkering Business and Agro Business of the Corporation.	The details are being gathered in order to prepare Manual for the Lubricant business, Bitumen business, Bunkering business and Agro business of the Corporation and preparation of the draft of the Manuals are in progress.	Should be complied with the relevant guideline.
(ii) Guideline 7.7	The Board of Directors of the Corporation had not established a structure that facilitates oversight of the performance of the subsidiaries.	Noted.	-Do-
(b) Public Enterprises Circular No. PED 01/2021(i) of 16 November 2021 – Guidelines on Corporate Governance for State Owned Enterprises.			
(i) Guideline 2.2.5	The Corporation had not	Noted.	-Do-

(a)	established a subsidiary policy that addresses issues including dividends, changes in equity and shareholding and major transactions.			
(ii) Guideline 2.2.5 (b)	• The Board of Directors of the Corporation had not taken the responsibility for reviewing the affairs of its subsidiary companies within the broad regulatory and legal framework. As such, the Corporation had not reviewed the performance of subsidiary companies at Board meeting regularly.	Noted.		-Do-
	• The Corporation had not monitored intercompany transactions among subsidiary companies.	Noted.		-Do-
(c) The Custom Ordinance (Chapter 235) No.17 of 1869 and the letter No. TIP/TP/09/06-02/21 issued by the Secretary of the Ministry of Finance dated 30 December 2021 on Payment of Due Duties/Levies up to date.	Accumulated Customs duty payable relating the period of 2011 to 2022 amounting to Rs. 42,581 million had not been paid within the prescribed period contrary to the provision. Further, the Corporation had not complied to the directions issued by the Secretary to the General Treasury regarding the Payment of outstanding of custom duties/levies.	Provisional custom duties are settled for all the cargos received during the year 2022 and if there is any difference among actual duty calculations and provisional duty paid for the above cargos, difference will be settled to the Director General of Customs.		-Do-
(d) The Nation Building Tax (Amended) Act No 20 of 2019	Nation Building Tax (NBT) payable amounting to Rs.3,243 million that had been recognised in the financial statements of the year 2018, remained un-settled in the books of accounts for a longer period without being settled contrary to the provisions of the Act. Further, amended NBT returns had not been submitted to Inland Revenue Department (IRD).	The Corporation faces many cash flow shortages & difficulties due to the loss making position and negative equity capital position. Therefore, the provided amount of Rs. 2,627 Mn. has not been settled and the related liabilities have been informed to IRD	The amended NBT returns have to be submitted to the IRD and appropriate action should be taken to clear all the unreconciled balances with IRD.	

through the meetings had with IRD to discuss the outstanding tax matters time to time.

2 Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.615,053.1 million and the corresponding loss in the preceding year amounted to Rs.81,816.4 million. Therefore, a deterioration amounting to Rs. 533,236.7 million of the financial result was observed. The reasons for the deterioration are the increase in exchange rate variances, finance expenses and selling & distribution expenses by Rs.493,789.9 million, Rs. 93,891.3 million and Rs. 10,296.1 million respectively.

2.2 Ratio Analysis

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

	Corporation		Group	
Ratio	**2022**	**2021 (Restated)**	**2022**	**2021 (Restated)**
Profitability Ratio				
Gross Profit/ (Loss) Ratio (%)	3.47	(0.70)	2.93	(2.01)
Operating Profit/ (Loss) Ratio (%)	(0.54)	(7.07)	(0.61)	(6.83)
Net Profit/ (Loss) Ratio (%)	(53.54)	(13.99)	(53.74)	(13.79)
Liquidity Ratio				
Current Ratio (Number of times)	0.77	0.48	0.79	0.49
Quick Ratio (Number of times)	0.51	0.42	0.53	0.44
Investment Ratio				
Return on Capital Employed (ROCE) (%)	(701.13)	(16.28)	(1641.13)	(33.22)
Gearing Ratio (Number of times)	3.84	1.46	5.18	1.56

The gross profit/ (loss) ratio and the operating profit/ (loss) ratio of the Corporation had increased by 596 per cent and 92 per cent respectively and the net profit/(loss) ratio had decreased by 283 per cent during the year under review as compared with the previous year.

Return on capital employed of the Corporation had been decreased by 4,206 per cent during the year under review as compared with the previous year.

3 Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Collection of Monthly Utility Fee (MUF) According to the Board Decision No. 38/1140 dated 29 October 2013, the Board had approved to charge 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, decision had not been fully implemented and MUF had been charged only from 11 dealers out of more than 220 CODO and TODO dealers. Accordingly, unrecovered MUF had been increased to Rs. 3,416 million as at the end of the year 2022.	we have issued the Circular No. 1053 dated 05th July 2022 to the all CODO category dealers that MUF will be charged with effect from 01st July 2023 and to Pay the relevant MUF 25th of the every month. However, this decision was not implemented after several discussions with Hon. Minister and the State ministers by the dealer union.	The board decisions should be implemented without delay. Appropriate action to be taken to recover the loss of income from responsible parties.
(b) Even though following issues with regard to Common User Facilities had been reiterated in previous audit reports, the Corporation had not taken prompt action to rectify them.		
(i.) Although the Common User Facility Shareholders Agreement had been expired on 31 December 2008, the common user facilities covered under said agreement including the governance procedures for entities and the pricing formula used for the purpose of determining the throughput charges and transport expenses including slab charges had not been revised with the agreement of all related parties.	Agreement has been signed between CPC and CPSTL to determine the throughput charge and the transport expenses in 2019. Separate Committees have been appointed to submit the agreed formula. Last revision has been done in April 2019 as per the Committee recommendation. No revision had been done after that date.	The Corporation should enter into an agreement without delay with the collaboration of all related parties.
(ii.) The Corporation had entered into an Agreement with CPSTL excluding LIOC on 13 May 2019 which include terms and	The agreement signed in 2019 is between CPC and CPSTL for the services rendered to CPC by CPSTL. The terms and conditions	The Corporation should enter into an agreement without delay with the

	conditions relating to storage and transport of petroleum products and the way of deciding the throughput between CPC and CPSTL. Even though the same terms and conditions are related to the LIOC as well, as a main user and a party of the Common User Facilities Share Holder's Agreement (GOSL/CPC/LIOC) dated 30 December 2003, the LIOC had not been considered. Therefore, it was observed that any impact on unfavourable 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.	between CPSTL and LIOC cannot be included to this agreement.	collaboration of all related parties.
(iii.)	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 portions of pipelines to the accepted standards and provide storage facilities to maintain 02 months fuel stock was a responsibility of the CPSTL. However, as a result of delaying in unloading fuel from vessels due to blockages in the pipelines and inefficiencies in the storage system, the Corporation had to pay the demurrages without passing on such cost to the service provider.	A Board paper has been submitted and approval has been received for seeking the approval of Board of Directors to recover the claim amounts submitted by the suppliers from CPSTL for the vessels incurred additional time at discharge port due to law infrastructure facilities maintained by CPSTL.	Appropriate action need to be taken by the management as to minimize the cost to the Corporation.
(iv.)	The Corporation had paid a sum of Rs.250 million to the Urban Development Authority in relation to the rehabilitation of 12" dia and 5,500m long pipeline from Colombo Port to Kolonnawa Oil installation in the year 2019.	This matter was discussed in the Ministry Audit Committee Meeting held on 28.07.2021 and it was noted as it was informed by the Chairman, CPSTL that a method should be prepared to repay the cost of Rs. 250 million	Action should be taken to establish the recovery mechanism having negotiated with CPSTL.

	According to the information made available to audit, the Corporation had not entered into an agreement or negotiated with the CPSTL in order to recover the paid amount later.	to CPC.	
(v.)	A sum of of Rs. 62,000 million had been transferred to the CPSTL as throughput charges for the development of infrastructure facilities relating to the storage and terminal facilities for the fuel supply in the country. However, there were no sufficient and appropriate evidences to ascertain whether the CPSTL had taken proper action to design and to develop new infrastructure facilities and maintenance of the existing facilities promptly.	Noted.	Appropriate action need to be taken to ensure that the funds transffered to CPSTL has being using for intended purposes.
(c)	All the losses beyond the permissible limits in relation to the operation of storages and distribution of fuel stocks are entitled to recover from CPSTL by the Corporation. However, the permissible limits of depot stock losses which was decided by the Board of Directors of the CPC on 17 June 1968 had not been re-evaluated and updated for over five decades by the Corporation. The operational loss incurred by the corporation for the year under review was Rs. 468.85 million.	The actual operational loss of year 2022 was lower than the permissible limits. However, an action has been taken to reevaluate the permissible limits by appointing a special committee comprising of CPC and CPSTL officers. The final decision is pending since recommendation made by officers of CPC, have not been accepted by CPSTL and unable to incorporate this to CPC and CPSTL agreement.	Appropriate action need to be taken to re-evaluate and update permissible limits in relation to the operational loss.
(d)	As per the audit examination carried out pertaining to the hedging transactions taken place in respect of procurement of oil during the period of 2007 to 2009, the total loss incurred to the country on those transactions as at 31 December 2022 had been Rs. 14,028 million. Moreover, the Commercial Bank had filed a case at the Commercial High Court, Colombo against the Corporation by claiming US$	The case between the Commercial Bank and CPC is still pending in court.	Appropriate action need to be taken to settle the matter early.

8,648,300.

(e) As iterated in previous audit reports, The ERP which is an initial version (SAP ECC 6.0) of SAP ERP system released in 2005 has been using by the Corporation from the date of 01 April 2010 without any up-grading up to date. According to the letter No. ADM/12/01/19 dated 09 April 2021, secretary to the Ministry of Energy instructed the Chairman of CPC and CPSTL to do a feasibility study and value for money audit in relation to the use of SAP system and to take necessary actions in accordance with the recommendations of steering committee to prevent the risk of using an out-dated system. However, the Corporation had not taken prompt action to upgrade SAP system.	CPSTL awarded to SAP recommended party to carry out SAP readiness survey regarding version update. After receiving the readiness report with detail CPC &CPSTL take further action regarding version upgrade**.**	Promt action should be taken to upgrade SAP system.
(f) Receivable from Foreign Suppliers According to the information received by the audit, in respect of the period from 2012 to 2018, USD 4.39 million equivalents to Rs.1,632 million had to be recovered from foreign suppliers as penalty imposed due to late delivery/ short loading, external losses penalty for unacceptable quality and losses incurred due to price differences. However, until the end of the year under review, the Corporation had not taken necessary action to recover them or settle them against the amount payable to those foreign suppliers.	From the amount receivable of 4.392 Mn. USD 3.016 is relevant to the M/s. Vitol Asia (Pvt) Ltd. & the supplier has agreed to settle all their dues by 30/09/2023. Request has made to DGM (C & SC) to make necessary arrangement to settle balance due amount.	Prompt action need to be taken to collect the outstanding balances or settle against payable amounts**.**

(g) 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.	Even Fuel Supply Agreement (FSA) with CEB has finalized, he signing the agreement was not effected due to the non-availability of a payment mechanism and guarantee on payment by CEB.	Prompt action should be taken to enter the formal agreements.
(h) Selling and Distribution of Fuel Stocks		
(i.) As revealed in audit, most of the activities in supplying petroleum products such as accepting fuel orders from dealers and consumers, verifying the credit limits and related pre-qualifications, issuing invoices, collecting cash from dealers etc. had been carried out by the CPSTL. However those activities should have been handled by the marketing entities especially by the Corporation. Accordingly, the Corporation had allowed the CPSTL to engage in an operation which had not been covered by its scope of storage and distribution of petroleum product. Further such activities are not covered by the Common User Facilities Share Holder's Agreement (GOSL/CPC/LIOC) dated 30 December 2003 entered into between the Government of Sri Lanka (GOSL), the CPC and LIOC.	Training of staff had been initiated to create sales orders via SAP by the Marketing Function/ Regional offices.	The Corporation should perform its duties.
(ii.) Due to lack of sufficient stocks of petroleum products, priority lists for distribution of petroleum products throughout the Island wide dealers and other consumers had been provided daily by the Corporation to the CPSTL. According to the audit examination carried out during the period from 07 to 18 of June 2022, the following observations are made.	-Do-	
(iii.) Order Function (OF) of the CPSTL had been preparing the daily out bound in the SAP system for distribution of fuel to dealers without being considered the priority list provided by the Corporation.	-Do-	The supervision should be made by the Corporation to ensure that the distributions are

	Accordingly, it was observed in audit that Distribution Function (DF) of the CPSTL had issued fuel outside the priority list without any supervision of the Corporation in the crisis situation. However, the distribution of LIOC stocks had been carried out as per the instructions of the Corporation.		made in a proper manner.
(iv.)	It was observed that 2,509 consignments of petroleum products (6,600 litres per consignment) had been distributed outside the priority list of the Corporation without obtaining prior approval or intimation to the Corporation. Further, 2,524 loads of petroleum products included in the priority list had not been distributed by the CPSTL to dealers at their own discretion without giving reasonable reasons acceptable to the Corporation.	-Do-	-Do-
(v.)	The Corporation had instructed to give priority for the companies or industries that paid in USDs to get some relief on foreign exchange issues faced by the Corporation. Accordingly, a special priority list of consumers who were ready to settle the payment in Dollar terms had been prepared and provided to the CPSTL. However, there are cases where payment had been received in USD but the goods had not been delivered by the due date as per the priority list.	-Do-	-Do-
(vi.)	According to the information made available to audit, 1,143 dealers had been registered in Corporation. In an audit test conducted in June 2022, it was observed that, 120 dealers had not been provided any load of petrol and 22 dealers had been provided only one load (6600 litres) of petrol per each. Meanwhile, 08 dealers had been provided more than 210,000 litres per each during that month. LAD had not been distributed for 73 dealers, while 08 dealers had been provided only	-Do-	-Do-

	one load per each. Meanwhile 17 dealers had been provided more than 200,000 litres of LAD per each. Further, 66 dealers had not been provided any white oil product during that period while only one load had been distributed for 06 dealers per each. However, 15 dealers had been provided more than 350,000 litres of white oil per each during that month. Accordingly, it was observed that an unequal and unjustifiable pattern of distribution of white oil had been implemented during the crisis period which led to create excessive queues and public unrests in the country. However, the Corporation had not taken prompt action to prevent and correct such issues on time.		
(i)	As revealed in previous audit reports, a sum of Rs. 1,617 million had been paid by the Corporation as custom duties and taxes before discharging the cargo of rejected shipments, in which excise duty amounting to Rs. 648 million had been included. However, the Corporation was unable to get that amount recovered or to get them settled from subsequent payments made by the Corporation from January 2017.	CPC has received a letter from SL Customs stating that, CPC has yet to pay outstanding taxes from previous years and will not be refunding the amount until the outstanding is paid. CPC couldn't settle some previous tax amounts due to problems in assessment notices. Now the assessment notices are getting corrected by SL Customs. Once CPC settled outstanding tax payment, Sri Lanka Customs agreed to pay amount raised by audit query.	Action should be taken to recover or get them settled.
(j)	As iterated in previous audit reports, any agreement or a Memorandum of Understanding (MOU) had not been entered into between the Corporation, the CPSTL and the Lanka Indian Oil Company (LIOC) with regard to their individual responsibilities on the involvement of the Enterprise Resource Planning (ERP) System introduced by the CPSTL. Accordingly, it was observed that the ERP system had not been effectively utilized by the Corporation especially for the fuel stock	Noted.	Action should be taken to enter in to a proper agreement in relation to commonly use of SAP (ERP) System.

reviewing activities and refinery functions.

(k) Procurement of Fuel Oil

(i) According to the Cabinet Decision No. AMA/12/0295/510/003/TBR dated 14 March 2012, the Corporation should endeavour to enter into Term Contracts for a long period of time on the basis of later settlement in the procurement of all petroleum products. Nevertheless, the total quantities of fuel oil expected to be used in the years 2021 and 2022 which were MT. 399,979 or 47 per cent of the total consumption and MT. 547,900 or 53 per cent of the total consumption was planned to be imported as finished fuel oil respectively, however no any Term Contract was reached in 2021 and 2022.	Term tenders for Fuel Oil are not decided by Stock Reviews Committee (SRC) because Fuel Oil demand instantly change with rain conditions. And the amount of Fuel Oilproduced by the refinery also affects the import of this fuel oil. Due to these reasons, the import of Fuel Oil in the years 2021 and 2022 it was not implemented under long-term contracts (Term Contract) and no import of Fuel Oil was done as planned.	Corporation should endeavour to comply with the provisions of the Cabinet Decition.
(ii) Procurement of Fuel Oil Revising the specifications as a matter of urgency (BK/48/2022)		
• According to PLATTS' price forecasts during that period, the world market price of petroleum had shown a gradual decline. In spite of that, the commercial managers agreed to extend the Laycan by 21 days and change the Laycan from 14-15 April 2022 to 8-10 May 2022, but pay based on the initial Laycan dates apart from the Corporation's normal paying procedure. Therefore, it is questionable that there was a real urgency of procuring the products. As a result, the Corporation had to incur an estimated additional cost of USD 970,766 equivalent to Rs. 355.62 million.	The Corporation has failed to open Letters of Credit (L/C) in relation to the initial delivery laycan of 14-15/04/2022 for this tender ref: BK/48/2022. At that time, due to the severe exchange crisis in the country, it was difficult to issue L/C through state banks in Sri lanka . In this case the supplier has suggested 8-10/05/2022 as the new delivery laycan. The proposal was submitted to the SRC held on 26/04/2022 & it was accepted by SRC and the same was communicated to the supplier . It is not possible to determine precisely whether the price will change, and Platt's in the long run predictions about price fluctuations are not always accurate. Therefore, in such cases, regarding the change of delivery	It should be endeaver to procure the fuel at most economical way.

	laycan, the usual method is to maintain the original delivery laycan for pricing as proposed to the supplier according to the original agreement.	
• Even though, SRC had taken decision to procure fuel oil on emergency basis, the financial viability of the Corporation had not been considered. As a result, additional estimated demurrage cost of USD 873,584 equivalent to Rs. 336,329,840 had to be incurred due to the inability to unload the ship as scheduled at the arrival of the ship.	Due to the financial crisis in the country at that time, this shipment had to be anchored in the Discharge Port in Colombo without being able to open L/C or make advance payments.	-Do-
(iii) The Corporation had rejected a bid relating to procurement of fuel oil (BK/11/2021) with the approval SSCAPC due to non-compliance to the specifications and re-called as two separate bids (BK/13/2021 and BK/16/2021). The following observations are made in this regard.		
• It was observed that the Corporation had recalled two bids without changing the specifications determined to be inconsistent and only Laycan dates had been changed. The tender had been awarded and procured from the same supplier who was previously rejected with the recommendation of the Standing Technical Evaluation Committee (STEC) and approval of the Special Standing Cabinet Appointed Procurement Committee (SSCAPC) without compliance with the specification. However, according to the new bid, a higher price premium had been given compared to the price offered as per the original bid (BK/11/2021). Accordingly, due to higher premium quoted in re-bidding, the Corporation had incurred an avoidable additional cost of USD 390,238 equivalent to Rs. 76.73 million.	The main purpose of bringing the Fuel Oil cargo under the tender ref: BK/13/2022 order was because at that time the stocks of Fuel Oil needed to generate electricity in the country were limited in accordance with the Fuel Oildemands made by West Coast Power Plant(WCPP). For this reason, the specifications in the offer of M/s. Vitol Asia Pte Ltd, S'pore under tender ref: BK/13/2021 were referred to WCPP on 26.01.2021 for reconsideration. There their decision was that only in this case would these specifications be approved. Accordingly, tender ref: BK/13/2021 was awarded to M/S M/s. Vitol Asia Pte Ltd, S'pore with the	-Do-

	recommendations of STEC and the approval of SSCAPC.	
• According to PLATTS' price forecasts during that period, the world market price of petroleum products had shown a gradual rising trend. Accordingly, in the event that there is a possibility of an increased price, where no reasonable forecast was done, it is observed that the Corporation could have avoided an estimated loss of USD 368,837 equivalent to Rs.72.52 million due to the change of Laycan and purchase under new Leycan.	Long term predictions on world oil price fluctuation are not practical and those predictions are not always accurate. It is impractical to make decisions regarding these price fluctuations, and the corporation always tries to meet the petroleum requirement of the country at the right time by applying very low cost. Furthermore all respective tenders were called by SRC based on its unanimous decisions.The practical justifications that led to those decisions are clearly mentioned in respective SRC reports. The main reason for the SRC to meet once a week is to maintain a continuous supply of oil in the country.	-Do-

(l) Procurement of Diesel

(i) **Procurement of Diesel under the Unsolicited Proposal by cancelling the term contract**

• The Corporation had entered into a term contract with a supplier to purchase 1,960,000 barrels of diesel (LAD) at a premium of USD 7.48 from 01 March 2022 to 31 October 2022. Subsequently, that term contract had been cancelled and the Corporation had also lost the option given by the supplier to actively maintain the term contract at a price premium of USD 6.98 per barrel as the prepayment method.	Due to the exchange crisis in the country at that time, it was not possible to actively maintain this term agreement. As stated in the report, the term contract was to be executed at a price of USD 6.98 per barrel, but the cabinet approval for this term contract was for a credit period of 180 days at a price of USD 7.48 per barrel subject to issuance of L/C	-Do -
• However, during the active period of such term agreement, the Corporation had procured 497,996 barrels of diesel which comprises 274,185 barrels and 223,811 barrels respectively under price premium of	The corporation officials were not able to implement the supplier's second proposal at a price of USD 6.98 per barrel on the basis of pre-payment. All Diesel shipments under Indian Credit	-Do-

	USD 24 and USD 23 per barrel on prepayment basis in 02 occasions respectively, from the same supplier who had the term contract. Therefore, Corporation had to incurred additional cost of USD 8,252,081 equivalent to Rs. 3,047.42 million.	Line were delivered at the time of May 2022. Two cargoes under shipment ref: BK/139/2022 in July & BK/168/2022 in August were procured considering strictness of the country based on the need for fuel and to maintain the economic stability of the country to some extent. These two orders under unsolicited proposal have been obtained from M/s. Coral Energy DMCC,UAE by following the specific approval required. That is, this unsolicited proposal has been awarded to the supplier on the approval of SSCAPC as per STEC recommendations with the consent of CPC.	
•	The Corporation had procured 922,381 barrels of Lanka Auto Diesel (LAD) at a premium of USD 17.00, USD 19.87 and USD 13.83 per barrel respectively in 03 occasions from two other suppliers during the period when the relevant term contract was active. Accordingly, Corporation had incurred an estimated additional cost of USD 9,146,741 equivalent to Rs.3,381.69 million.	The strictness of the country these orders have been obtained based on the need of fuel and with the aim of maintaining the economic stability of the country to some extent. And these orders have been obtained under unsolicited proposal following the specific procurement procedure because this unsolicited proposal has been awarded to the supplier on the approval of SSCAPC as per STEC recommendations with the approval of top management.	-Do-
(ii)	**Additional Payment due to applying different PLATTS price**		
	The price or cost of the imported petroleum product is determined by the Corporation using the average price of product with specific specifications at the price index published daily on Singapore PLATTS.	The supplier has submitted LAD (Gas Oil 500 ppm) price for unsolicited proposal based on Platt's Gas Oil 10 ppm price index. STEC and SSCAPC in those cases the recommendation was to deviate from this LSD	-Do-

	According to the information available to the audit, the Corporation had procured 1,820,012 barrels of Lanka Auto Diesel (LAD) (Gas Oil 500 ppm) which comprises 8 shipments from four suppliers during the year under review. However, it was agreed to make the payments based on the PLATTS price relating to the Lanka Super Diesal (FOB Singapore Price Method of Gas Oil 10ppm) which having a relatively higher average PLATTS price. Accordingly, the Corporation had to incur additional cost of USD 10,499,898 which was equivalent to Rs. 3,872.96 million.	(Gas Oil 10 ppm) specification and use LAD (Gas Oil 5 0 0 ppm) in the relevant Platt's to request the supplier to agree to the specification. Such a request was made but the supplier has not agreed to it. Also, no other competitive alternative proposals have been received at this time. A committee was appointed by the CPC management regarding the purchase of LAD (Gas Oil 5 0 0 ppm) with this specifications (Gas Oil 10 ppm) .	
(iii)	**Purchase of diesel under Indian Credit Line.** When pricing for 599,722 barrels of Lanka Auto Diesal (LAD) imported by the Corporation in two occasions under the Indian Credit Line, the Corporation had to incur an estimated additional cost of USD 4,582,179 equivalent to Rs. 1,669.54 million due to payments made based on different PLATTS prices which related to the Lanka Super Diesal.	This order proposal has been submitted by the supplier IOC, India (Indian Oil Corporation, India) subject to the Indian loan assistance amount of 200 million. There the supplier has quoted the price for supply of LAD (Gas Oil 500 ppm) based on Platt's Gas Oil 10 ppm price index. CPC has requested to agree with Gas oil 500ppm price index but the supplier has not agreed. Due to the severe exchange crisis in the country during this period STEC and SSCAPC at that time the recommendation was to deviate from this LSD (Gas Oil 10 ppm) price index and use LAD (Gas Oil 500 ppm) in the relevant Platt's. Also, no other competing alternative proposals have been received at this time.	-Do-
(m)	**Procurement of Crude Oil** A price index representing a relatively high price in the market (Dated Brent Price) had been used to decide the price (cost) in relation to 2,023,509 barrels of crude oil (Siberian Light and Ural) imported by the Corporation in 03 occasions during the year under review	Two cargoes under shipments ref: CR/15/2022 and CR/38/2022 were purchased through unsolicited proposals with the STEC recommendations and approval of SSCAPC based on the price index submitted by the supplier.	-Do-

instead of using the related price index for those products published on Singapore PLATTS. As a result, the Corporation had to incur an additional cost of USD 48,603,726 equivalent to Rs. 17,876 million.	Two Crude Oil stocks had to be purchased as none of the registered suppliers submitted bids for the tenders communicated to the registered suppliers and because there was no other alternative way of procuring Crude Oil during this period. Also, if Crude Oil was not purchased about two cargoes, the country would have been in crisis due to the fact that the refinery would not be able to meet the energy needs of the country.	
(n) Demurrage Cost		
According to the records of the Corporation, the average demurrage rate per day which was ranging between USD 15,000 - 21,500 in the previous years for a 40,000MT ship of finished petroleum product had been increased ranging between USD 16,000 - 55,000 in the year under review. Further, demurrage rate per day which was ranging between USD 4,000-17,500 for a crude oil ship had also been increased ranging between USD 45,000 - 120,000 in the year under review. Accordingly, demurrages claimed by the suppliers during the year under review had been increased from Rs. 572 million to Rs 5,463 million or over 9 times compared with the previous year.	Compared to 2021, the reason for the increase in demurrage cost for shipping in 2022 is the severe financial crisis in the country during these periods. Due to this situation, it was very difficult for the CPC to open L/C for oil cargoes ordered on time as agreed with the supplier. Sometimes the oil tankers were anchored at the discharge port for several days until the L/C or advance payment was given as agreed. Based on this situation, the suppliers continue to charge for the respective ships demurrage rate has been increased. Demurrage rate of the ships proposed by the suppliers is high due to stringent vessel conditions at discharge port mentioned in the tender but those ships have to use for imports of oil cargoes. There are only a very limited number of ships in the market that can meet those conditions.	-Do-
(o) Loan Repayment of Indian Credit Facility On 02 February 2022, an agreement was signed between the Department of Foreign Resources of the General Treasury on behalf of the Government of Sri Lanka and the Export and Import Bank of India (EXIM bank) on behalf of the	CPC's financial position was heavily affected due to the absence of cost reflective Pricing mechanism and drastic depreciation of LKR against USD. This has resulted in Rs 615 Bn loss in the year 2022. Therefore, CPC was not in a position to settle the above loan while assuring continuing the fuel supply to the nation	Action should be taken to settle the outstanding balance as per the agreement and Cabinet approval.

Government of India to obtain a short-term credit facility of USD 500 million for the purchase of petroleum products for Sri Lanka. Furthermore, amount of USD 200 million had been provided from another loan facility obtained by the government for the purchase of petroleum products. Accordingly, Corporation and the Government had signed two lending agreements on 28 April 2022, in relation to the terms and conditions of utilizing and the loans repayment. According to clause 2.03 of those agreements, Corporation shall repay to the Government (Department of Treasury Operations of Ministry of Finance) the principal amount of loans in LKR equivalent to USD for each consignment imported as per the credit facility agreement within six months period from the date of receiving the import clearing documents to the importer/CPC' bank. However, Corporation had not settled the outstanding amount of Rs 228,770 million even it had exceeded the stipulated time period at the end of the year under review.	simultaneously. This position was continually informed to the Ministry of Power and Energy and the Ministry of Finance. The Ministry of Finance has already arranged to set off the above loan balance of USD 697 Mn with the trade receivable to CPC from CEB and Sri Lankan Airlines under the Cabinet decision Ref No 23/1200/604/118 dated 05/07/2023 for the restructuring of the Balance Sheet of selected State-owned Enterprises.	

3.2 Operational Inefficiencies

Audit Issue	Management Comment -	Recommendation
(a) A sum of USD 250,925,169, equivalent to Rs. 32,344 million, had to be paid to the National Iranian Corporation, Tehran in relation to purchase of Petroleum Products by the Corporation in the year 2013. However, in compliance with sanctions enforced to Iran by the United States of America, the afore said outstanding balance was not settled. This outstanding balance had been shown in the financial statements as a payable amount from	Discussions has been made with the participation of Ministry of Finance, Economic Stabilization and National Policies, Ceylon Petroleum Corporation, Ministry of Power Energy, Sri Lanka Tea Board, Ministry of Plantation Industries, Ministry of Foreign Affairs to discuss the implementation of the signed MOU between Sri Lanka and Iran to settle to Sri Lanka's oil debts of USD 250.0 Mn. to Iran through operationalizing the tea for the oil barter	Appropriate action should be taken by the Corporation to minimize the related cost and other consequences in this regard.

the inception of the transaction at the exchange rate as of the end of each year, and the exchange gain or loss had been accounted of the respective year. Accordingly, payable balance and accumulated exchange rate variance loss (from 2013 to 2022) at the end of the year under review had increased to Rs. 93,246 million and Rs. 61,838 million respectively. The exchange loss for the year under review was Rs. 42,308 million. It was further observed that any payment on that had not been made due to uncontrollable external factors. However, Corporation had failed to settle that amount by alternative forms in a situation where gradually depreciating the LKR over USD.	arrangement. Outstanding amount will settle based on the outcome of the above discussions.	
(b) Storage and Distribution of Petroleum Product		
A special audit report on evaluation of existing petroleum storage capacity utilized in the country and appropriateness and productivity of the fuel transport pipeline system including railway and bowser transport system currently in operation in the country, with recommendations for smooth and safe operation of the petroleum storage complex, was tabled in Parliament. In this audit report it was emphasised that a proper internal control system for smooth and safe operation of the petroleum storage complex and fuel transport process in the country had not been suitably designed and implemented by the Corporation. However, audit was unable to ascertain whether the Corporation had reasonably attempted to implement the recommendations given in that report for smooth and safe operation of the petroleum storage complex.	Agreed with the content.	The Corporation should properly evaluate and appropriate action should be taken on the recommendations of the report. Measures should be taken for the smooth and safe operation of the petroleum storage complex and fuel transport systems in the country.
(c) Trincomalee Tank Farm		

The Tank Farm containing 100 Oil Tanks, each having a capacity of 12,500 cubic meters (m3)(10,000 MT) and other associated facilities, had been constructed in Trincomalee 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 01 April 1964. Nevertheless, no legal documents had been obtained up to date from the Government for the above land.

In 2003, the Government of Sri Lanka had entered into an agreement with the LIOC and the Corporation to lease out the storage facilities and the land to the LIOC for a period of 35 years, and the lease agreement should have been executed within 6 months from the date of the agreement. However, the Corporation had not entered into any lease agreement, and not used the tanks yet. Nevertheless, the LIOC had been using those assets since the year 2003. Although the initial decision-making activities for the modernization of the 84 tanks in the abandoned upper section had been started on 29 April 2015, the necessary activities for the development and rehabilitation of the tank complex had not yet been carried out.

Although the Corporation and the

With the directive given by Chairman CPC, a team of CPC officers conducted a condition assessment of the tanks and associated infrastructure and piping systems and proposed a business model in 2016. Due to the geopolitical issues that prevailed with those tanks, CPC was not allowed to carry out the proposed development by any party.

In this backdrop, in 2020, CPC again prepared a comprehensive development plan to refurbish 24 Nos. Storage tanks in the upper tank farm to store Petroleum products for Domestic usage in the Northern and Eastern provinces, which would have significant cost savings achieved via distribution and logistics arrangements, and a Pre-Feasibility Study was conducted internally.

Subsequently, under the "Modalities for the Possession , development, and use of the China bay Oil Tank Farm " agreement signed January 2022, CPC has received 24 Nos. of Steel Storage tanks in the China Bay upper tank farm for development. Further , a CPC subsidiary company, namely Trinco Petroleum Terminal (Pvt) Ltd. was formed on 24.12.2021 for this tank farm under the direction of Minister of Energy for the development 61 Nos. tanks in upper tank farm.

Immediate attention should be paid to develop proper strategic plan and implement for developing the China Bay Oil Tank Farm Complex as to make the farm suitable to carry out the related businesses.

LIOC had established a joint company, named Trinco Petroleum Terminal (Pvt) Ltd, in connection with an agreement related to the development of the Trincomalee Oil Tank Complex, A proper strategic plan had not been prepared and implemented for developing the China Bay Oil Tank Farm Complex as to make the farm suitable to carry out the related businesses.		

(d) Sapugaskanda Oil Refinery

(i) As stated in previous audit reports, the existing Refinery, which had been constructed five decade back (commissioned in 1969) was a basic Refinery and was not being able to cater the increasing demand of petroleum products in the country and this Refinery was operating with a low margin when compared with refineries operating with advanced technologies providing 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 in by incurring of Rs. 1,003 million for that purpose had been remained idlling even up to the end of the year under review.	Since the Refinery Expansion and Modification (SOREM) project has been held up for a considerable period time (more than 10 years) due to various reasons, it was necessary to revisit the feasibility of the project. As such,a basic preliminary pre-feasibility was done by an in-house team. Thereafter, with the approval of the cabinet ministers a comprehensive feasibility sudy was carried out by M/S KBC Advanced Technologies Pte. Ltd. for the purpose of installing a separate new 100,000 bbl/d refinery on BOT basis while carrying out essential modifications to the existing Refinery. A Cabinet Memarandum has been prepared by the line ministry and seeking approval for the same to initate the procurement process for calling Request for Proposeals (RFP) for the refinery establishment. It has been identified that additional 100 acres land is required for the project and acquisition process of around 23 acres has already been initiated	Attention has to be given to upgrade the existing refinery and build a new as to satisfy the country's demand at lowest cost.
(ii) The refinery had been shut down in several times due to a lack of crude	Management comment had not been provided.	Economic and social impact should be

oil, resulting in significant manpower and other resources being idle. However, a formal evaluation of the economic and social value of running the refinery after studying all the facts in detail has not been done at the institutional level so far**.**		evaluated before making decision to shut down the refinery.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) Halgaha Kumbura Land at Wanathamulla 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.	The fact mentioned therein is correct.	Steps should be taken to evict the unauthorized occupants and utilize the property for the betterment of the Corporation.
(b) Acording to the correspondence made available, the Corporation had acquired Mahahena Land by spending Rs. 0.63 million, and it had not been accounted for. However, this land is being utilized by the previous owner even after the acquisition in 1986.	Steps have not been taken by Divisional Secretary Kolonnawa to handover the vacant procession of these lands to CPC even though the CPC has deposited the compensation with Divisional Secretary Kolonnawa.	-Do-

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) The Scheme of Recruitment and Promotions (SORAP) for the executive service category of the Corporation had been approved by the Department of Management Services on 05 May 2017. However, the recruitments and promotion of executive category of the Corporation had been carried out disregarding the provisions in relation to the minimum requirement of professional and academic qualifications and experiences of approved SORAP. As a	We have already forwarded the revised Recruitments and Promotions procedure (SORAP) for grades ‘A’ ,’B’ and ‘C’ to the Treasury through the Ministry of Power and Energy for their approval.	All the recruitments, promotions etc. has to be done according to the approved SORAP.

result, the ability to attract and retain most suitable officers with relevant professional and academic qualifications with required experiences had been prevented over six years.		
(b) The Corporation had introduced a number of loan schemes to its staff such as Motor vehicle Loans, Housing Loans, Housing repair Loans, Distress Loans, Thrift Society Loans, Special loans, Disturbance loans, advances etc. The total loan outstanding as at 31 December 2022 was over Rs. 4,300 million. According to the information made available to audit it was observed that, due to insufficient funds available, the Corporation had to delay or postpone very urgent and important capital improvement works. Maintaining a large amount of loan portfolio using the Corporation's funds would badly effect on that. However, proper attention had not been paid to outsourcing of the loan scheme to a commercial bank or a finance institution to overcome above issue without being impaired the employees.	Staff Loans are given to employees as an employee benefit and to retain employees. As the loans are recovered monthly from the salary, there is no huge burden to the cash flow.	Action should be taken to outsource the loan scheme to improve the financial stability of the corporation.