

Trinco Petroleum Terminal (Pvt) Limited - 2023

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Trinco Petroleum Terminal (Pvt) Limited (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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 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 Company’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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company.
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs 47 million and the corresponding loss in the preceding year amounted to Rs 38 million. Therefore a deterioration amounting to Rs. 9 million of the financial result was observed. The main reason for the deterioration is the legal fee of Rs. 8 million that had to be incurred due to a legal case filed by a third party against the company for two cases (SCFRA 09/2022 and SCFRA 14/2022) pertaining to illegal situations that occurred during the registration of TPTL and the violation of human rights in its establishment.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income, expenditure, assets, liabilities and equity items of the year under review compared with the preceding year with the percentage of increase or decrease were as follows.

Line Item	2023	2022	Variance	Increase/ (Decrease)	Comments
	Rs. Million	Rs. Million	Rs. Million	%	
Administrative Expenses	19.45	6.47	12.98	201	The Administrative Expenses have been increased by 201 percent mainly due to recruit of Project Manager and legal fee of Rs. 8 million incurred for the legal case filed by third party against the company.
Finance Income	3.21	Nil	3.21	-	Finance Income is mainly comprised with interest received on Call Deposits.
Total Assets	351.19	317.82	33.37	10	Total Assets have been increased due to increase of work in progress by Rs. 45.84 million in relation to land clearings and Preliminary works done in the site.
Total Equity	115.28	62.03	53.25	86	Total Equity has been increased due to issue of shares amounting to Rs 100 million between CPC and LIOC based on 51:49 ratio.

Current Liabilities	1.96	21.79	(19.83)	91	Current Liabilities have been decreased by 91 per cent due to settlement of Rs. 20.2 million to LIOC for lease rental of 61 tanks acquired by the company.
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3. Operational Review

3.1 Management Activities

Audit Issue	Management Comment	Recommendation
The Company had submitted an investment application dated 16 December 2022 for the purpose of setting up a new company to be operated under section 17 of the BOI law. The said application was accepted by the Board of Investment (BOI) on 20 December 2022. The total registration fee paid to the BOI amounted to Rs. 1.2 million as at 31 December 2023. However, the agreement with the BOI has not been signed as of end of June 2024. As a result, the Company was unable to set up as a BOI company so far and obtain the benefits under the section 17 of the BOI law. Further, that was adversely affect on commencement of the operational activities and timely achievement of the business objectives.	During discussions conducted with the legal function of BOI, they requested us to submit several documents such as Amended Article of Association, Approval of CEA, Approved Survey Plan, draft Agreement and Auditors conformation before signing the agreement. Preparation of those documents is in progress and expected to be completed within a period of three months, enabling TPTL to register the project in BOI.	Action should be taken promptly to get the BOI registration and to start operational activities for timely achievement of the business objectives.

3.2 Strategic Activities

Audit Issue	Management Comment	Recommendation
(a) According to the short-term strategic plan of the Company, 09 tanks had to be refurbished during first phase of the project or first three-year period. However, it was unable to observe that the Company has committed or reached to the target timely even the first two years have already passed. Therefore, the completion of the project and commencement of business activities timely according to the strategic plan were doubtful.	The Capex requirement for this is USD 11.9 million. Since TPTL does not have funds for this investment, Expression of Interest (EOI) was called in newspapers on 20/05/2024 and websites of TPTL, CPC and LIOC with effect from 21/05/2024. The date of closing of the EOI is 05/07/2024. Development activities of the project will have to be scheduled based on the outcome of the results of the EOI.	The process of extracting the required funds for the project should be expedited.

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| <p>(b) The Company had not entered into a common user facility agreement or does not have a plan with the relevant parties regarding the common user facilities, including the use of jetties, pipelines, and other ancillary services. Therefore, it was observed that there is no common agreement with relevant parties to success the business operation of the Tank Farm Project at Trincomalee</p> | <p>The consultant appointed to design the development activities of Phase 1 of the project has agreed to provide the detailed design within the month of June 2024. The agreement for the common user facilities will be finalized after studying the detail design of Phase 1 of the project by both CPC and CPSTL.</p> | <p>Prompt actions should be taken to enter in to common user facility agreements with the stakeholders of the company to success the business operations of the Tank Farm Project at Trincomalee.</p> |
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3.3 Delays in Projects

Audit Issue	Management Comment	Recommendation
<p>The consultancy project for the preparation of an Initial Environment Examination (IEE) report which is required to obtain the approval from the Central Environmental Authority (CEA) for the Tank Farm Development Project at Trincomalee had been awarded to a local consultant on 13 September 2023 at contract value of Rs. 3.3 million. Even though, the contract period is 2.5 months, the IEE report has not been obtained yet. According to the records of the Company, the cumulative progress of the project as at 31 December 2023 was only 10 percent. As a result, the preparation of the IEE report for the project has been delayed for 07 months as of July 2024.</p>	<p>Progress of the work of the Consultant was delayed due to following reasons.</p> <ul style="list-style-type: none"> • Delays for granting approvals from some of the stakeholders of the project for collecting data required for completion of the report. • Under water survey within the area of China Bay lagoon could not be conducted for a longer period, due to bad weather conditions. • Delays for providing data from the other contractors involved in the project. 	<p>Getting the preparation of an Initial Environment Examination (IEE) report should be expedited from consultant so as to enable the company to obtain the approval from the Central Environmental Authority.</p>

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Issue	Management Comment	Recommendation
According to the information provided to the audit, 76 percent or Rs. 139.81 million of the capital budget was remained unutilized for the year 2022 and 100 percent or Rs 3,965 million was remained unutilized during the year under review. Even though, the capital budget of Rs 4,291.16 million had been made for the year 2024 for the capital improvements of the Company, it was observed that there are no secured internal or external funding source to finance the budgeted CAPEX of the company.	50% of the capital budget allocation of the 2023 consists of the budget for the tank repair and rehabilitation for 10 tanks where balance was budgeted for the development of allied facilities. Development activities of the project will have to be scheduled based on the outcome of the results of the EOI and revised budget for 2024 will be presented for the approval based on the outcome.	The process of secure required funds for the project should be expedited.