

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Ceylon Petroleum Storage Terminals Limited ("Company") for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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. 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 Company as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.2 Basis for Qualified Opinion**

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 Audit Scope**

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

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

## 1.5 Audit Observation 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) The cost of the fully depreciated assets and carrying value of currently used assets except land and building were Rs.10,477 million Rs.10,603 million respectively which comprises 26,267 items of Property, Plant & Equipment of fully depreciated and 8 categories asset are being used by the Company without reviewing their residual value and useful life according to the paragraph 51 of the LKAS 16 - Property Plant and Equipment and those assets were not presented in the financial statements in accordance with paragraph 79(b) of the Standard. Further, the Company had not revalued its assets except land and buildings since the inception of the Company in 2003. Therefore, it was	<p>As at 31 December 2024, fully depreciated tangible assets amounted to Rs. 11,126 million, covering 32,335 items. Of these, 27,448 items valued below Rs. 50,000 each will not be revalued due to high administrative costs outweighing benefits. Instead, the management has opted to revalue only high-value assets.</p> <p>The tangible assets with a positive net book value totaled Rs. 47,926 million across 4,376 items of Property, Plant &amp; Equipment.</p> <p>In 2024, CPSTL completed the revaluation of lands and buildings based on Government Valuation Department reports, in line with SLAS 16. The revaluation of Bulk Fuel Storage tanks at Kolonnawa and Muthurajawela was completed and reflected in the financial statements as of April 2025. The revaluation of the remaining tanks is ongoing and expected to be completed within the year.</p>	The company shall comply with the provisions of the Sri Lanka Accounting Standards.

observed that the fair value of the non-current assets except lands and buildings were not reflected in the financial statements for the year under review.

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| <p>(b) According to the paragraph 36 of the LKAS 16 - Property Plant and Equipment stated that "if an item of property, plant, and equipment is revalued, the entire class of property, plant, and equipment to which that asset belongs shall be revalued". However, the company has failed to revalue the 81 buildings out of 371 number of buildings owned by the company of which cost amounting to Rs.246,985,014 or 13% of the total cost of the buildings. Further, it was unable to verify 147 revalued buildings in the valuation schedule when compared with the fixed assets register.</p> | <p>Re-valuation of freehold buildings owned by CPSTL have been re-valued and incorporated in the financial statements as at 31-12-2024, except for the buildings located at Crow Island, Vipulasena Mawatha, minor buildings at the Galle Depot, and (A and B Grade) Staff Quarters at Kotagala. This has been disclosed as a Note to the Financial Statements in the absence of non-receipt of revaluation reports from Government Valuation department as at 31-12-2024.</p> <p>The re-valuation of these lands and buildings at Crow Island and Vipulasena Mawatha has now been fully completed and updated financial statements in May 2025. The remaining properties are currently in the process of being revalued and will be incorporated in the 2025 financial statements.</p> <p>Apart from the above, all bulk depots, (except for the Galle) are on leasehold lands obtained from the CGR on 5-year renewable terms. Therefore, buildings situated on these depots are not recorded as fixed assets of the company when formation of the company.</p> | <p>The Company should comply with the requirements of LKAS 16</p> |
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### 1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) It was observed that the company uses 09 railway reserves on long term rental basis for maintaining storage facilities in regional basis and rent payments had been made up to the year 2013 as agreed. The outstanding rent payable as per the letter dated 12 September 2024 of the General Manager - Railway Department as of 31 December 2024 is Rs. 111,108,874. The value identified as rent payable in the financial statements by the company is Rs. 99,876,792. Accordingly, an under-provision of rent payable of Rs. 11,232,082 had been identified in the financial statements as at 31 December 2024. Further, it was observed that, these lease agreements had been expired in the year 2013. Even though, the Department of Railways had submitted lease agreements by obtaining rental value from the Department of Valuation the company had not signed the agreement due to disagreements with the rental value.	Based on the liability on lease rental payable Rs. 99,876,792 in financial statements as at 31-12-2024. Board of Directors has granted approval to pay Rs. 86,358,792/= +VAT ( <i>CPSTL Board Decision no. 13/258<sup>th</sup> dated 11.06.2025</i> ) to Sri Lanka Railways after negotiation for reduction of lease rental for 09 LBD's for the period of ten (10) years from 01.01.2014 to 31.12.2023. Payment of these lease rentals will be made in due course.	Lease agreements need to be updated and provision should be made accordingly

### 1.6 Accounts Receivable

Audit Issue	Management Comment	Recommendation
(a) According to the financial statements for the year 2024 of the Company amount receivable from Ceylon Petroleum Corporation (CPC) was Rs. 8,100,420,819. However, balance confirmed by CPC	As of 31st December 2024, a total disputed balance of Rs. 1,346,640,612/- exists between CPC and CPSTL. This includes Rs. 777,413,155/- worth of transactions unrecorded by CPSTL due to accounting disagreements and lack of prior management approval. CPC has not taken effective measures to recover these charges and has	The Company shall take timely actions to reconcile Intercompany balances and timely settle or recover dues from

was Rs. 6,753,780,207. Accordingly, a difference of Rs. 1,346,640,612 was observed between those two balances. The company had prepared a reconciliation to reconcile the differences and had discussions with CPC to agree those differences. Accordingly, the company had mutually agreed net differences of Rs. 24,000,000 with the CPC. However, gross transactions amounting Rs. 777,413,155 which leads to the differences shall be accounted in the financial records of the company had not been recorded as of 31 December 2024. Further, Rs. 1,322,640,612 differences in the reconciliation had not been mutually agreed. Further, long outstanding receivable balances over 5 to 14 years amounting to Rs. 719,393,334 were observed.

been requested to remove them from its books. Of the total, Rs. 719,393,334/- represents CPC receivables outstanding for over five years. In May 2025, CPSTL wrote off Rs. 71,742,825/- of long-outstanding disputed receivables with Board approval.

and to the relate parties.

- (b) According to the financial statements of the Company for the year 2024 amount receivable from The Lanka Indian Oil Company (LIOC) was Rs. 1,163,874,058. However, balance confirmed by LIOC was Rs. 356,002,161. Accordingly, a difference of Rs.807,871,897 was observed between those two balances. Accordingly, reconciliation had been prepared to identify the differences by the company. However, the differences arisen from non-reporting of bulk transport charges by the LIOC amounting Rs. 637,032,487 had not been mutually agreed with the LIOC. Therefore,

LIOC agree to release the total payments due on BTR bulk transport charges amounting Rs. 637,032,487 after signing the CUF agreement on 23<sup>rd</sup> April 2025.

Since then, CPSTL has recovered payment of Rs. 96,022,375/- from LIOC during the month of May 2025 and the balance payments is to be received in due course.

CPSTL operational department does not agree in principle with LIOC for request of Demurrage charges amounting to Rs. 2,495,897/- from CPSTL during the year 2016. Therefore, CPSTL does not account for such liability in the books of accounts neither categorize this liability as contingent liability.

So far, LIOC have not taken any effective steps to recover these charges from CPSTL. CPSTL has requested from LIOC to reverse these entries from their books of accounts

The Company shall take timely actions to reconcile Intercompany balances and timely settle or recover dues from and to the relate parties.

recoverability of this income during the year 2025. is questionable. Further, long outstanding receivable balance amounting to Rs. 2,495,897 was remained unsettled for more than 8 years.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)Section 2.3 of the Guidelines on Corporate Governance for State Owned Enterprises issued by the Public Enterprises Circular No. 01/2021 dated 16 November 2021.	The finalized strategic plan together with the action plan covering the year under review had not been submitted by the Company to the Ceylon Petroleum Corporation (Parent Company) and The General Treasury.	Board Approval have been granted to Strategic plan and Action plan for the period 2025-2029 at the 256th Board Meeting held on 02.04.2025 and ratified minutes on 08.05.2025.  Approved Strategic plan and Action plan have been submitted to the line Ministry and CPC.	The Company should follow the Guidelines on Corporate Governance

## 2. Financial Review

### 2.1 Financial Result

The operating results before tax of the year under review amounted to a Profit of Rs. 4,998 million, the corresponding loss in the preceding year amounted to Rs.314 million. Therefore improvement amounting to Rs. 5,312 million of the financial result was observed. The reasons for the improvement were increase of terminal income by Rs. 4,385 million, transport income by Rs. 4,070 million, Interest on REPO Investment by 26 million.

### 2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding four years (04) with the percentage of increase or decrease were as follows.

Years		2024	2023	2022	2021	2020
<b>Line item</b>						
<b>Revenue</b>	<b>Rs. Mn</b>	<b>18,899</b>	<b>10,150</b>	<b>9,433</b>	<b>14,276</b>	<b>12,568</b>
Variance	Rs. Mn	8,749	717	(4,843)	1,708	(2,772)
Percentage of Variance	%	86.2	7.6	(33.9)	13.6	(18.1)
<b>Direct Cost</b>	<b>Rs. Mn</b>	<b>(9,562)</b>	<b>(6,846)</b>	<b>(6,806)</b>	<b>(8,369)</b>	<b>(7,634)</b>
Variance	Rs. Mn	2,716	40	(1,563)	735	(946)
Percentage of Variance	%	39.7	0.58	(18.7)	9.6	(11)
<b>Other Operating Income</b>	<b>Rs. Mn</b>	<b>1,015</b>	<b>1,180</b>	<b>1,309</b>	<b>706</b>	<b>573</b>
Variance	Rs. Mn	(165)	(129)	603	133	(279)
Percentage of Variance	%	(14.0)	(9.8)	85.4	23.2	(32.75)
<b>Administrative Expenses</b>	<b>Rs. Mn</b>	<b>(5,688)</b>	<b>(5,098)</b>	<b>(4,925)</b>	<b>(5,061)</b>	<b>(4,463)</b>
Variance	Rs. Mn	589	173	(136)	(598)	(474)
Percentage of Variance	%	11.6	3.5	(2.6)	13.4	(9.6)
<b>Finance Income</b>	<b>Rs. Mn</b>	<b>334</b>	<b>307</b>	<b>285</b>	<b>202</b>	<b>309</b>
Variance	Rs. Mn	27	22	83	(107)	(14)
Percentage of Variance	%	8.8	7.7	41	(34.6)	(4.3)
<b>Profit for the year</b>	<b>Rs. Mn</b>	<b>4,998</b>	<b>(315)</b>	<b>(704)</b>	<b>1,578</b>	<b>2,138</b>
Variance	Rs. Mn	5,313	389	(2,282)	(560)	(151)
Percentage of Variance	%	1,686.7	55.2	(144.6)	(26.0)	(6.6)

## 2.3 Ratio Analysis

Key ratios as compared with the preceding four (04) years were as follows.

Year		2024	2023	2022	2021	2020
<b>Ratio</b>						
<b>Profitability Ratios</b>						
Gross Profit Ratio (GP)	%	49.40	32.55	27.9	41.38	43.73
Operating Profit Ratio	%	24.68	(6.12)	(10.49)	9.64	13.48



Net Profit/ (Loss) Ratio	%	26.45	(3.10)	(7.46)	11.06	15.76
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### Liquidity Ratios

Current ratio	Times	5.53	6.62	5.36	5.7	8.66
Quick ratio	Times	5.28	6.23	5.06	5.46	8.24

### Investment Ratio

Return on Assets(ROA)	%	8.16	(0.96)	(2.09)	4.74	6.67
Earnings Per Share	(Rs)	4.51	0.05	(1.41)	1.56	2.64

### Gearing Ratio

Debt to Equity Ratio	Times	0.31	0.22	0.23	0.21	0.20
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## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the paragraph 6.7 of the Operations Manual for State Owned Enterprises, fixed assets shall be physically verified on an annual basis. However, the company had not physically verified fixed assets after restructuring of the company in the year 2003. Therefore, it was unable to verify the existence and valuation of the fixed asset classes with large volume assets recorded in the financial statements for the year under review valued at Rs. 18,597,745,238.	<p>More than 95.1% of the total fixed assets base of Rs. 58.1 billion, consist of immovable fixed assets such as Lands, Buildings, Pipelines, Bulk Fuel Storage tanks, Pumps &amp; Gantries, etc.... &amp; Fleet of Motor Vehicles which will be 100% physically verified by Automobile Association for valuation of Motor Vehicles for Insurance purposes.</p> <p>Only 4.9% of the total fixed assets base of Rs. 58.1 billion, consist of immovable properties such as Furniture, Fittings, Fixtures, equipment's, and Computers.</p> <p>All these immovable fixed asset's legal ownership, physical existence have been physically verified by the Government Valuation Department officers during the year when issuing Re-valuation reports for accounting purposes.</p> <p>Furthermore, Finance &amp; Audit Departments carried out physical verification of movable fixed assets at</p>	It should be complied with the requirement of the operations manual for State Owned Enterprises.

Kolonnawa and Muthurajawela Oil Terminals and those reports are **available at the respective departments for audit review.**

(b)As at 31 December 2024, work in progress relating to 6 projects amounting to Rs. 23,137,341 had been written off against profit during the year. Upon examination of this written off invoices amounting Rs.16,979,325 and engineer certificates amounting Rs.8,225,012 had not been presented to the audit. In addition board approval for the above written-off had not been available for the audit. Therefore, it was unable to verify the authority, accuracy and value of the said written-off.

WIP No: 610000000032

Project : Infrastructure Development Facilities Muthurajawela

**Amount: Rs. 6,142,500**

This amount includes only consultancy fees, and the project has since been discontinued.

WIP No:630000000025

Project:Replacement of Tank No 30 at Kolonnawa

**Amount :Rs. 354,830**

This payment was made for soil investigation in the surrounding area of Tank No. 30.

WIP No:710000000016

Project :Upgrading of Diking and Oil Recovery

**Amount :Rs. 10,874,719**

The payment was made for consultancy services related to the conceptual design review and the oil recovery system at the tank farm in the Kolonnawa installation. The job has been completed, and budget approval was granted exclusively for this project

WIP No:610000000060

Project:Security Improvement at KKS

**Amount :Rs 3,924,135**

This project involved shifting the existing chain-link fence to the newly leased land

WIP No:710000000019

Project :Repairing and Servicing of Spare Bouy of Muthurajawela - SO 12880

**Amount :Rs 1,825,641**

The payment made for the third-party inspection charges for repairing and servicing of Spare Bouy

The work in progress written off should be complied with the requirement of operations manual for State Owned Enterprises paragraph of 6.9.

<p>(C)The contract for the construction and operation of 6 fuel tanks at the Kolonnawa Terminal (3 tanks of 15,000m<sup>3</sup>, 2 tanks of 7,000m<sup>3</sup>, and 1 tank of 5,000m<sup>3</sup>) was awarded to M/s JPMA-GTPL Association for USD 12,680,000 under the Cabinet Decision No. 19/2129/119/078/TBR dated 18 September 2019. Due to the contractor's poor performance, the company and the contractor had signed an arbitration agreement on 10 march 2025 regarding the completion of the project for the construction of these 6 tanks. Approval to implement the terms of the arbitration agreement was obtained through Cabinet Decision No. 25/0466/825/028 dated 02 April 2025, and upon cancellation of this contract agreement, the contractor had withdrawn from the construction. According to the company's accounts, as of 31 December 2024, an advance payment of Rs. 435,389,607 made to him had been recorded under work in progress and subsequently advance had been settled as of 02 April 2025 By this time, only the foundation work of the tanks had been completed. As of the audit date, a new contractor had not yet been selected for the remaining parts required to complete the tanks.</p>	<p>The Cabinet approved award of six tank project to M/s JPMA-GTPL Association during the year 2019. (Cabinet Decision No. 19/2129/119/078/TBR dated 18 September 2019)</p> <p>This project was terminated by CPSTL Board of Directors on January 2022.</p> <p>CPSTL has awarded another contract to M/s JN Construction (Private) Ltd for “Protection Works of Foundations of Proposed 6 Nos. Storage Tanks at Kolonnawa Installation” to complete the partly completed contraction work done by the previous contractor at the cost of Rs. 44.0 million in June 2024.</p> <p>Amicable settlement agreement was signed with M/s JPMA-GTPL Association on 10th March 2025 and approval of the Cabinet Decision No. 25 / 0466 / 825 / 028 received on 02 April 2025.</p> <p>After completion of the Protection Works at Foundations of Proposed 6 Nos. Storage Tanks project at Kolonnawa Installation. The cost of the foundation works has been capitalized in the books of accounts during the month of April, 2025.</p> <p>ICB tender was called in year 2024 for construction of balance work of the Six Tank Project and tender will awarded in the month of July 2025.</p>	<p>Recommendations included in the Cabinet Decision No. 25/0466/825/028 dated 02 April 2025 should be implemented.</p>
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<p>(d)The company has imported 02 Mooring Hawsers with thimbles at a cost of Euro 44,911 and it has been handed over to the company in 2022 and 2023. Further it was observed that one Mooring Hawser worth Rs. 13 million was damaged beyond use due to unsafe storage in an outdoor warehouse of the Company's Oil Facilities Division. Therefore, it was observed that the Company has not considered ascertaining the conditions under which the hawser to be stored and adequate measures had not been taken to prevent damages during storage. Furthermore, it was observed that the Company has not installed an online inventory monitoring systems covering this unit although it has used to storage high valued inventory in open air and assets relating to the offshore operations. Either action had not been taken to recover the damage amounted to Rs. 13mn or to take disciplinary action against them as at 20 May 2025.</p>	<p>Due to the high value and long useful life (over 10 years) of the two Mooring Hawsers with thimbles, they have been classified as capital assets under the SPBM sub-class. Following damage to one hawser, the Operations Department implemented several security and handling measures, including:</p> <ol style="list-style-type: none"> <li>1. Installation of 12 CCTV cameras,</li> <li>2. Lockable storage containers for valuable items,</li> <li>3. Special metal pallet for safe handling,</li> <li>4. Secured open store area with lockable gates and entry control,</li> <li>5. Construction of a security tower,</li> <li>6. Restricted access by relocating employee restrooms,</li> <li>7. Centralized storage of high-value spares at Kolonnawa Terminal, and</li> <li>8. An ongoing investigation into the damage incident.</li> </ol>	<p>Proper investigation to identify the nature of damage, value and responsible person should be carried out and report should be forwarded to the board of directors to get a decision regarding this matter.</p>
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<p>(e) According to an internal investigation report, it was identified a fraud in the distribution process. Accordingly, the Board of Directors decided to conduct a forensic audit in</p>	<p>Release of advance payments to forensic audit has been decided by the CPSTL Board of Directors without any recommendation or approval given by the respective user functions.</p> <p>Copy of the interim forensic audit</p>	<p>Action should be taken to get the final report of investigation. then, necessary action to solve the matter should be taken in</p>
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the sales and distribution process. For this purpose, the company had selected an accounting firm for consultancy fee of Rs. 8,600,000 including taxes. According to the consultancy agreement, the assignment shall be completed by 31 August 2023. However, draft interim report was provided by the consultancy firm on 06 May 2024 and final report had not been submitted as of audited date of 05 May 2025. The company paid an advance amount of Rs. 5,836,691 on 29 July 2024 based on the approval of the board from the contracted amount agreed for this task contrary to the agreed milestones of the assignment. The company had not taken steps to obtain the final report. Further, company had not taken necessary actions to implement the recommendations contained in the interim report by evaluating validity of the recommendations made.

report have been given to the Crime Investigation Department to take necessary legal actions.

Company has requested to release the final forensic audit report to evaluate the recommendations and take necessary actions against the findings and to release the balance payments in the future.

accordance with recommendations of final report.