Ceylon Petroleum Corporation - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Petroleum Corporation ("Corporation") and the consolidated financial statements of the Corporation and its subsidiary ("Group") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income statement of changes in equity ,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 Group at 31 December 2019, 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 Corporation's and 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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

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

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 Corporation's and Group'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 Corporation'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 Corporation 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 Corporation and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Corporation and the Group have complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;

- Whether the Corporation and the Group have performed according to its powers, functions and duties; and

- Whether the resources of the Corporation and the Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with reference to particular Standard	Management Comment	Recommendation
(a) Paragraphs 36 of LKAS 16 - Property, Plant & Equipment: Fully depreciated assets approximately costing Rs. 5,098.89 million are being continuously used by the Corporation without reassessing the useful economic lifetime of those assets and account them accordingly. Further, test check revealed that, 22 lots of land belongs to the Corporation as at the end of the year under review had not been revalued and it shows a considerable low amount.	The 11 nos. of lands which have not been revalued without having absolute ownership. But the 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.	It should be adhered to the standard and proper records should be kept.

(b) According to the paragraph 47 of the SLFRS 16, firms are required to follow single accounting model for all leases. Firm should present operating lease either as right of use assets separately from other assets in the balance sheet or disclosed separately in the notes. Similarly, lease liabilities should present separately from other liabilities in the balance sheet or disclosed separately in the notes. However, the Corporation had not complied with such provision. According to the information provided to the audit, total operating lease rental expense for the year 2019 was Rs.43.12 million.	CPC does not have Financial Lease Assets in the Property Plant & Equipment. Therefore, there are no any adjustments to the financial statements. However, action will be taken to disclose the lease rental paid during the year in coming financial statements.	It should be adhered to the standard and proper records should be kept.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the consolidated financial statements of the Corporation, it was eliminated only Rs. 3,845.56 million as intercompany balances whereas according to the audited financial statements of the CPSTL it was Rs. 6,248.78 million. Therefore, un-reconciled difference of Rs. 2,403.22 million had been erroneously stated as receivable from the Corporation under trade and other receivable of the consolidated financial statement. Further, such un-reconciled balance includes unadjusted cash in transit amount of Rs. 1,029.13 million at the end of the year under review.	-	Appropriate actions to be taken to clear all unreconciled balances early.
(b) Differences had been observed between the amounts shown in the consolidated financial statement and the audited financial statement of the subsidiary (CPSTL) in respect of the financial assets and administrative expenses by Rs. 9.78 million,	-	Appropriate actions to be taken to clear all unreconciled balances and correct figures should be taken when preparing consolidated financial statements.

	differed tax by Rs. 2.74 million, trade and other payable by Rs. 54.97 million, other operation income by Rs. 76.35 million and income tax expense by 24.12 million.		
(c)	According to the Accounting Policies stated in the financial statements of the Corporation "*Monetary assets denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date and all differences are taken in to income statement. All Aviation Customers of the CPC are reported in foreign currencies*". However, monetary assets denominated in foreign currencies had not been converted using closing rate of functional currency at the reporting date and as a result, an understatement of the balances of certain Aviation customers totalling Rs. 910.8 million and profit for the year under review by similar amount were observed.	As per CPC accounting policy, the exchange rate of the closing date of the year end was taken in to consideration to convert the US Dollar (Functional Currency) in to Rupees terms (Reporting Currency). But the difference of 910.8 million has occurred due to the usage of selling rate as the closing date.	It should be adhered to the accounting standards and accounting policy of the corporation.
(d)	**Collection of Monthly Utility Fee (MUF)** According to the Board Decision No. 38/1140 dated 29 October 2013, the Board has approved to recover 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, this decision had not been fully implemented and MUF had been charged only from 11 out of 248 dealers. Therefore, more than Rs. 300 million per annum had been lost to the Corporation since the year 2014. Accordingly, an approximate cumulative loss of Rs. 1,900 million had been incurred by the Corporation	A board paper no 3/1214 dated 03.07.2020 has been submitted in year 2018 to implement this policy among all CODO dealers. Further the board of directors of CPC has not agreed with the recommendations made by the Marketing and superseded all decisions on this payments citing the ambiguity and the contradictory nature of the previous decision. While superseding these decisions, they have recommended alternative mechanisms to change an additional fee from the CODO outlet after evaluation of the outfit. The new method also been difficult to implement. Hence, a new board paper has been submitted citing the reasons for difficulties for implementing new	Appropriate actions to be taken to recover the loss from responsible parties. It should be ensure that the decisions of the board are implemented as intended manner by the responsible parties and if not, the necessary actions should be taken.

for the period of 2014 to 2019. Even though this matter was reiterated in my previous audit reports, effective action had not been taken by the Corporation to charge MUF from all dealers in both categories as mentioned above. Further, no any adjustment had been made in the financial statements of the year under review in this regards.	decisions in the year 2020 and the decision of board paper agreed that there is no solid base implementing in MUF and it has not been implemented based on policy decisions made by the CPC.	
(e) Three negative bank balances aggregating Rs. 1,941.76 million had been netted off against the positive bank balances and shown under current assets instead of been shown under current liabilities.	CPC does not have any overdraft bank balance as at 31.12.2019. CPC has opened money market accounts both in Bank of Ceylon and People's bank to invest the daily excess money in the interest yielding investments. These money market accounts are linked with other current accounts and if the money is not available in the current account, the required amount is automatically transferred to the current account form the money market account. Accordingly, there is no any overdraft in the bank accounts as funds are available in the money market account. Further, CPC has not incurred any overdraft interest during 2019.	Positive and negative bank balances should be shown separately in financial statements.

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.Mn	As per corresponding Record Rs.Mn	Difference Rs.Mn	Management Comment	Recommendation
(a) Receivable from Ceylon Electricity Board	785.3	753.6	31.78	According to the Balance Confirmations received from CEB, it has confirmed the balance of Rs: 753.6 million as payable to CPC. Further the balance difference of Rs.31.8 million was explained in the reconciliation sheet already sent.	Prompt action to be taken to rectify the unreconciled amounts.

(b) Payable balance to Inland Revenue Department					
(i) NBT	3,242.5	707.9	2,534.6	The difference between CPC and IRD has been arisen due to IRD confirming the outstanding balances without considering the few payments/ adjustments/ matters.	Prompt action to be taken to settle the outstanding early.
(ii)Income Tax	2,950.8	16,268	13,317.2		
(iii) PAYE Tax	0	33.5	33.5	PAYE tax paid subsequently to the Department of Inland Revenue for the December 2019 salary and Annual Bonus is Rs. 51,644,826.96. This was payable as at 31/12/2019 and was paid on 13/01/2020. Rs. 2.5 million represents the WHT retained for retiring gratuity. This is payable either to Department of Inland Revenue (IRD) or to the employee. CPC retain part of gratuity till CPC gets the clearance from IRD. This liability is settled once the clearance is taken.	Prompt action to be taken to settle the outstanding early.
(c) Demurrage Payable	337.24	363.12	25.89	No comments	Prompt action to be taken to reconcile and settle the outstanding early.

1.5.4 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
Attention is drawn to the matter that the operations of the Corporation had resulted in an after tax loss of Rs. 11,856.6 million and a total comprehensive expense of Rs.11,751 million for the year 2019, had a negative net assets position of Rs. 293,213 million as at the end of the year under review. The heavy losses incured during past years mainly due to the continues negative impact of exchange rate variations during the recent past, inappropriate pricing policy and also the negative impact	No comment	Appropriate actions should be taken to reduce the negative net assets position of the Corporation.

of heavy losses incurred by the Corporation due to Hedging transactions taken place during previous years had caused further erosen of the net assets of the Corporation. Thus, the ability of the Corporation to continue as a going concern without the financial assistance from the Government is in doubt.

1.5.5 Documentary Evidences not made available for Audit

Item	Amount Rs. Mn	Evidence not available	Management Comment	Recommendation
(a) Receivable from Department of Inland Revenue and Custom	1,135.8	Tax Returns, invoices and other relating documents	The recoverability of this amount will be checked and pass necessary entries in the Financial statements for the financial year 2020.	Prompt action to be taken to recover/settle the amount.
(b) Vested Property	1.02	Detail schedule of the assets and any other supporting documents	This is the value of the fixed assets vested from Oil Companies at the time of the incorporation.	Appropriate actions to be taken to keep proper record of Corporation's property.
(c) Payable Balance	317.17	Balance confirmations and other related supporting documents	Actions have been taken for these balances to reflect the correct balances in the Financial Year 2020.	Appropriate actions to be taken to keep proper and updated records of transactions.
(d) VAT receivable from Department of Inland Revenue	565.2	Tax invoices and other relating supporting documents	The recoverability of this amount will be checked and pass necessary entries in the Financial statements for the 2020.	Appropriate actions to be taken to keep proper and updated records of transactions.
(e) Receivable from Department of Inland Revenue	376	Tax Returns, invoices and other relating documents	This entry was passed in year 1998 and the reconciliations are in progress.	Appropriate actions to be taken to keep proper and updated records of transactions.
(f) Debit balances in trade and other payable	749.66	Balance confirmation and other relating	Actions have been taken for these balances to reflect the	Appropriate actions to be taken to keep proper and updated records of transactions.

		supporting documents	correct balances in the Financial Year 2020.	
(g) Cash in transit and Good in transit	8.46	The relating documents to confirm the balances	CPC are in process of reconciling the balance and action will be taken to clear in due cause with necessary actions.	Appropriate actions to be taken to keep proper and updated records of every transaction.
(h) Prepayment credit balance	32.82	The relating documents to confirm the balance	No relevant comment had been provided.	Action Should be taken to clear the amount
(i) Prepayment debit balance	1.02	Information not made available whether the court cases are pending or not	No relevant comment had been provided.	Appropriate actions to be taken to keep proper and updated records of every transaction.
(j) Refundable Deposits	110.8	Supporting documents to confirm the balance	Some deposits of this amount continues until the refund is requested by customer.	Appropriate actions to be taken to keep proper and updated records of every transaction.

1.5.6 The Audit Opinion on the Financial Statement of the Subsidiary Company

The audit opinion on the financial statement of the Ceylon Petroleum Storage Terminal Ltd (CPSTL) for the year under review was disclaimed by me due to the following matters which will cause to a disagreement with the corresponding balances/transactions of the Corporation and Group

Audit Issue	Management Comment	Recommendation
(a) As per paragraph 51 of the Sri Lanka Accounting Standard on Property, Plant and Equipment (LKAS 16), the useful life of the assets shall be reviewed at least at each financial year end and if expectations differ from previous estimates, the changes shall be accounted in accordance with LKAS 08. However, the useful life of the fully depreciated property, plant and equipment costing Rs. 6,074 million are being continuously used by the Company had not been reviewed and	Agreed to reassess the zero value assets with the support of CASL.	The Company should comply with the requirement of Standard and Assets shall be revalued accordingly.

accounted accordingly. Further, the Company had not re-valued its assets since the inception of the Company in 2003.		
(b) **Inter Company Balances** The accuracy, existence, valuation and completeness of the Inter Company balances between the Ceylon Petroleum Corporation (CPC) and Lanka Indian Oil Company (LIOC) were not assured in audit due to following reasons.		
(i) As per the information available for audit, the receivable amount of Rs. 1,173 million from CPC, the Parent, had been written off from their accounts to eliminate the loan interest components of throughput charges of 13 cents per litre considering the settlement of Exim Bank Loan in the year 2018. However, it has not concluded or no any impairment provision had been made in this regard by the Company. Therefore, the recoverability of this receivable balance is critically doubt in audit.	CPC had been written off to eliminate the interest component of the throughput charges without considering the existing Tri-party Agreement and been informed to the CPSTL board of Directors. The decision to eliminate the interest component of the throughput charges by CPC had been arrived arbitrary, without considering the Management of CPSTL. Many discussions had been taken place between the two managements (Finance division of CPC & CPSTL) with the participation of CPSTL / CPC Board members to sort out the matter. No provision has been made for any impairment due to the above is recoverable balance as at 31 st December 2019.	It should come to a settlement considering the intention of such a loan and legality of them with the CPC and LIOC.
(ii) As per the financial statements of the Company, the amount receivable from the CPC at the end of the year under review was Rs. 6,248.87 million. However, as per the financial statements of the CPC the amount payable to the Company (before deducting the cash in transit of Rs. 1,029.45 million) at the end of the year under review was Rs. 4,625.74 million. Hence, an un-reconciled difference of Rs.1,623.13 million was observed between these two balances.	As per your differences of Rs. 2652.58 Mn between CPSTL & CPC of Trade Receivable and payable outstanding as at 31st December 2019, we observed that there were no any differences between those balances on the said periods.	Appropriate actions to be taken to clear all unreconciled balances early.

(iii) According to balance confirmation received from the LIOC, the amount payable to the Company was Rs.370.9 million, whereas according to the financial Statements of the Company the corresponding amount was shown as Rs. 376.0 million. Hence, an un-reconciled difference of Rs.5.1 million was observed between these two balances.	The discussions are in progress to reconcile the difference and finalize.	Appropriate actions to be taken to clear all unreconciled balances early.
(c) More than 1,300 types of inventory items which comprises of significant quantity were observed in the Enterprises Resources Planning (ERP) system i.e SAP of the Company without being entered the value of such inventory items to the system for longer period. Therefore, the accuracy, valuation and completeness of inventory items valued at Rs.676 million shown in the statement of financial position as at the end of the year under review could not be relied upon in audit.	As per the prevailing procedure for scrap and used items, (ex. old newspapers, used tyres, etc) it is mandatory to record all the scrap & used items as used items with zero value. This is an important internal control mechanism to minimize the theft and improve the traceability. Total number of zero value items as at 31.12.2019 are 1,369 and out of that 1,336 items are Category one (used items-scraps) and only 19 items to be reconditioned and 14 items are under category 3.	All the inventory items should be properly valued and account accordingly. A proper recording and controlling mechanism to be introduced over inventory control of the Company.
(d) In contrary to the LKAS 08, Tug Boat charges aggregating Rs. 357.7 million which comprise an amount of Rs.62.5 million for the period 2010 to 2014, an amount of Rs.225.15 million for the period 2014 to 2018 and amount of Rs.70.1 million for the year 2018 had been accounted for the year under review and Rail track maintenance charges aggregating Rs.1.91 million relevant to year 2017 and 2018 had been accounted as expenses for the year under review.	Due to lack of formal agreement between CGR and CPSTL invoice for cost of railway track maintenance was not sent to CPSTL . After discussions with officials of CGR both parties agreed CPSTL settled year 2017 & 2018 in 2019. However in future railway track maintenance cost would be accrued on time. In the Section 25 of Sri Lanka Accounting Standards –LKAS 08 – Accounting Policies, Changes in Accounting estimates & Errors., when it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all the prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.	Appropriate actions to be taken to account all the expenses in the year it was incurred.

(e) 11 items aggregating Rs.82.62 million which had been purchased in 2018 and 2019 had not been properly accounted and laying under advance account by the Company as at the end of the year under review.	Out of 11 items, 03 items were materials and cleared in year 2020. 03 items have capitalized in year 2020. Balance remaining items are payments of 90% LC charges and GRN not received.	All the assets to be capitalized in terms of related accounting standards.
(f) **Trade and Other payable balances**		
(i) Debit balances of 48 trade and other payables aggregating Rs. 38.96 million which comprise of Government Supplies, Procurement Supplies, General Voucher Supplies and Transport's Vendors were observed at the end of the year under review. It shows 14 vendors aggregating Rs. 2.98 million from the year 2010 or before, 03 vendors aggregating Rs. 0.55 million over 05 years to 10 years and 31 debit balances aggregating Rs. 35.42 million over 01 year to 05 year were remained unsettled. It was observed that the Company has made subsequent transaction with those venders who are having debit balances without settling the existing debit balances. Therefore, the existence, accuracy and valuation of those debit balances were not assured in audit due to absence of sufficient and appropriate audit evidences.	Most of the debit vendor balances are reversal of erroneously done invoice verification in SAP (MIRO) without clearing.	Appropriate actions to be taken to settle all unreconciled balances early.
(ii) Trade payable balances aggregating Rs. 7.18 million of 81 parties since year 2010 or before, 310 payable balances aggregating Rs. 40.18 million over 05 to 10 years and 18 payable balances aggregating Rs. 39.45 million over 01 year to 05 years were remained unsettled as at the end of the year under review. However, audit was unable to ensure the existence, accuracy and valuation of those balances due to absence of sufficient and appropriate audit evidences.	There are certain vendor liabilities in long outstanding which are no longer required to be paid. The Sri Lanka Financial Reporting Standards (SLFRS 9), or IFRS-9, provides a list of criteria that must be met before any account payable can be written off According to those guidelines, financial liabilities should only be derecognized by the company when the obligation to pay is expired, canceled, or discharged. As such, they are not written off based on the time frame.	Appropriate actions to be taken to clear all the Long outstanding balances.

		Therefore we are seeking the Audit & Management Committee recommendation with the Board of Directors approval to written back those vendor balances after completing due diligence for each vendor account.	
(g)	Other receivables totalling Rs. 8.8 million was remained unrecovered for over 5 years as at the end of the year under review. Therefore, recoverability of this balance was not assured in audit due to absence of sufficient and appropriate audit evidences.	Sundry Customer balances are due to erroneously raised invoices, disagreements of invoices raised, rates or no traceable material evidence to pursue further to collect the outstanding. Most of these balances are coming from before the SAP system implemented in year 2010 and we have referred this to Audit and Management Committee of CPSTL to get necessary recommendation and Audit and Management Committee has recommended to write off the balance as this has been long outstanding and likelihood that these balance would not be recovered.	Appropriate actions to be taken to recover all Long outstanding balances.
(h)	A difference of Rs.437.53 million was observed between total of Income Tax payable, Value Added Tax (VAT) payable, Withholding Tax payable, Pay As You earn (PAYE) payable and Economic Service Charge (ESC) Payable balances appeared in the financial statements of the Company and the corresponding amounts shown in the records maintained by the Department of Inland Revenue (IRD) as at the end of the year under review.	According to IRD records, they are updating the system as per their assessments whereas in our Financial Statements include tax liabilities payable which are due on the subsequent month, self-assessment payments of income tax. Appeals that are logged against the disagreed assessments raised by IRD are not accounted in our financial statements.	Appropriate action to be taken to rectify those differences with IRD.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) **Recovery of Duties and Taxes**		
As stated in previous audit report, amount of Rs. 1,617.2 million paid as Custom Duties and taxes before discharging the cargo of rejected shipment which includes excise duty of Rs. 648 million had not yet been recovered or settled at the subsequent payments by the Corporation since January 2017.	Several actions have been taken to recover the payment.	Appropriate action Should be taken to recover the amount
(b) As stated in previous year audit reports, a sum of Rs. 57.7 million paid to the Department of Customs to settle the amount outstanding since 2002 in respect of the bunkering operations on the basis of reimbursement the amount from the General Treasury. However, this amount had not been reimbursed even up to the date of this report.	The payment of Rs. 57,736,913.00 to Custom Department to settle the outstanding was done as per the instructions of General Treasury to remove outstanding liability in Sri Lanka Customs. CPC has done the payment in 2014. Letter has been sent General Treasury to intervene on this matter.	Appropriate action should be taken to reimburse the amount early.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
(a) According to the confirmation received, an amount of Rs. 5,072.94 million had to be paid by the Corporation to the People's Bank as at the end of the year under review in respect of hedging transactions taken place for procurement of oil during the period of 2007 to 2009. However, it had not been brought to accounts of the Corporation.	There was no case filed by People's Bank against CPC for any dues pertaining to hedging transaction.	Appropriate action to be taken to come to a settlement with Peoples Bank as Government Institute.
(b) A sum of Rs. 103.82 million was observed under accrued charges in two dummy accounts namely "RF Dummy and HO Dummy" in the financial statements for the year under review	Actions has been taken for these balances to reflect the correct balances in the Financial Year 2020.	Prompt action to be taken to clear unidentified balances.

	without been cleared for a longer period. Therefore, the accuracy and existence of these balances were critically doubt in audit.		
(c)	Payable amounts totalling Rs. 143.47 million shown under Refundable Deposits and Others relating to 41 employees accounts were remained unsettle for over years. However, reasons for not setting these balances over the years were not ascertained in audit.	Actions have been taken to settle and pass necessary entries in the Financial Year 2020.	Prompt action to be taken to settle the amounts.
(d)	239 debit balances totalling Rs. 280.57 million over 05 years and 369 debit balances totalling Rs. 3,443.44 million over 01 year to 05 years shown under trade and other payables were remained unsettle as at the end of the year under review. Further it was observed that the Corporation had made subsequent transaction with these venders who are having debit balances without being settled the existing debit balances. Therefore, the accuracy and existence of those balances are critically doubt in audit.	Out of 239 debit balances, Vendors with 156 debit balances, amounts to Rs. 36.8Mn was not made any subsequent transactions.	Prompt action to be taken to settle the amounts.
(e)	According to the Age Analysis provided to the audit, balances of 297 venders totalling Rs.37,089.11 million relating to the trade and other payable amount shown as at the end of the year under review were remained unsettle for over 05 years. However, audit was unable to ensure whether any favourable action had been taken by the Corporation to settle these outstanding balances. Therefore, the accuracy and existence of such balances is doubt in audit.	Actions have been taken for these balances to reflect the correct balances in the Financial Year 2020.	Favorable action should be taken to clear the outstanding balance.
(f)	Total amount of USD 250,925,169 is to be paid to the National Iranian Corporation, Tehran in relation to purchase of Petroleum Product by the Corporation which is equivalent to Rs. 32,343.52 million in the year 2013.	Since the inception of creating payable balance of USD 250,925,169 to National Iranian Oil Corporation, CPC has made every effort to settle this amount through legal channels. Even in the recent	Appropriate actions to be taken by the Corporation to minimize the related cost and other consequences in this regard.

	According to the information provided, payment of such outstanding balance was stopped due to sanctions enforced to Iran by the United State. Such balance has been showing as a payable amount from the inception, at the exchange rate as at the end of each year and the difference of the adjustment transferred to exchange gain or loss of the respective year. Accordingly, payable balance as at the end of the year under review has been increased to Rs. 45,811.68 million. It was also observed that the payment of these balance had not been done due to uncontrollable external factors. However, audit was unable to ensure whether Corporation had taken any effort to settle this amount by alternative forms and evaluate the financial feasibility of keeping the balance unsettle in a situation where gradually depreciating the LKR over USD for longer period. Further, financial impact due to sanctions had not been clearly disclosed in the financial statements.	past, CPC has inquired several institutions including Central Bank, Ministry of Foreign Affairs, etc about how to make the payment. Keeping this amount as payable is justifiable since Iranian Government is concerned about this payment even today. It is evidenced that a mechanism is now established in collaboration with Ministry of Plantation to settle this outstanding payment.	
(g)	Accuracy of remaining amount of Rs. 2,500,000 as provision for disputed items since 2010 in the accounts of corporation without clear is doubt in audit.	No comment has been provided	Appropriate actions to be taken to clear all unreconciled balances early.

1.7 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/12 of 02 June 2003 - Guidelines for Good Governance.			
(i) Guideline 4.3	Minutes of Board meetings had not been forwarded to the Secretary to the line Ministry within 10 days after confirmation of such minutes.	This is not the normal practice right through out. In future we will arrange to send it.	It should be complied with the relevant guideline.

(ii)	Guideline 5.2.2	106 capital projects which have an estimated cost aggregating Rs. 34,094.5 million, had been carried out without a proper feasibility study.	Feasibility studies for the new capital items included in the budget for the year 2019	It should be complied with the relevant guideline.
(iii)	Guidelines 5.2.4 and 5.2.5	Copies of the final updated Budget approved by the Board had not been forwarded to the line Ministry, the Department of Public Enterprises, General Treasury and the Auditor General not later than 15 days before the commencement of the year 2019.	Annual Budget for the year 2019 has been placed before the Board of Directors on 10.09.2018. Accordingly, guideline has been met. Noted. Action has already been taken to submit the approved budget to the Ministry and Department of Public Enterprises on or before due dates. Accordingly, Budget for the year 2020 has been submitted on 03.12.2019.	It should be complied with the relevant guideline.
(iv)	Guidelines 7.2	Corporation had not prepared procedure manuals including all major activities for the Lubricant Business, Bitumen Business, Bunkering Business and Agro Business of the Corporation.	Standard Operational Procedures (SOP) are being developed by the Technical Services and Corporate Affairs function.	It should be complied with the relevant guideline.
(v)	Guidelines 9.3	The Corporation does not have a Scheme of Recruitments and Promotions which has been approved by the appropriate Ministry with the concurrence of the Department of Public Enterprise, General Treasury.	It is in the process of reviewing at present.	It should be complied with the relevant guideline.

(b)	Finance Circular No. 124 of 24 October 1997 of the Ministry of Finance and Planning	Covering up duties of a vacant post should be limited to a period of 03 months. Nevertheless, 05 officers had been assumed for cover up duties of the vacant posts including 03 Grade A posts, for more than 08 months.	Internal advertisements have been issued for 22 posts and the advertisements for the other 11 posts will be issued.	It should be complied with the relevant guideline.
(c)	Public Enterprises Department Circular No. FP/06/35/02/01 dated 04 November 2013 and No. PED 03/2016 dated 29 April 2016	The Corporation had borne the Pay As You Earn (PAYE) tax of its employees amounting to Rs. 173.7 million without deducting it from their personal emoluments for the year under review.	The PAYE amount added to the employee’s salaries as additional benefit and deducted in terms of the Inland Revenue Act No. 24 of 2017.	It should be complied with the provision in the circular
(d)	Guideline 4.2 of the Government Procurement Guidelines (2006)	Master Procurement Plan had not been prepared at least for three years by the Corporation	CPC has already prepared a Master procumbent plan forecasting three years demand of the country starting from this year, 2020 after the inquiry made by the Government Audit in 2019.	It should be complied with the relevant guideline.
(e)	Financial Regulation 396	Issued Cheques passes six months from the date it had been dated should be considered as stale and reverse the original transaction. However, 67 issued but not presented cheques totalling to Rs.2, 776,064 were remained without reversing.	CPC keeps some of the cheques without reversing the transaction to prove that those liabilities were settled considering legal aspects. Some cheques issued to employees are kept without reversing since there is a probability that they might come and extend the validity of the cheque. Other cheques were reversed subsequently.	It should be complied with the relevant regulations

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 11,856.6 Million and the corresponding loss in the preceding year amounted to Rs. 106,140.404 Million. Therefore, an improvement amounting to Rs.94,283.804 Million of the financial result was observed. The main reason for the increase was the decrease of exchange rate variation expenses by 110 per cents.

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**	
Ratios	**2019**	**2018**	**2019**	**2018**
Profitability Ratios				
Gross Profit/ (Loss) Ratio (GP) (%)	0.68	(0.72)	(0.59)	(1.77)
Operating Profit/ (Loss) Ratio (%)	(3.02)	(4.21)	(2.65)	(4.04)
Net Profit/ (Loss) Ratio (NP) (%)	(1.88)	(18.45)	(1.63)	(18.45)
Liquidity Ratios				
Current Assets Ratio (Number of times)	0.47	0.44	0.48	0.45
Quick Assets Ratio (Number of times)	0.36	0.34	0.38	0.35
Investment Ratio				
Return on Assets (ROCE) (%)	-1	33.81	-2.11	36.46

The gross profit/ (loss) ratio and the operating profit/ (loss) ratio of the Corporation had increased by 1.18 per cent and 1.39 per cent respectively during the year under review as compared with the previous year.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The Corporation is being supplied the liquid petroleum gas to a private company continuously without entering into an agreement for longer period.	Litro Gas Lanka Limited- Already Entered in to an Agreement. Laugfs Gas Limted- Agreement in the draft format has been finalized and signed within this month.	CPC should enter to an agreements without delay.
(b)	It was observed that there was no any agreement or a Memorandum of Understanding between the Corporation, Ceylon Petroleum Storage Terminal Ltd (CPSTL) and Lanka Indian Oil Company (LIOC) with regard to their individual responsibilities in respect of the involvement of the Enterprise Resource Planning (ERP) System introduced by the CPSTL, and as such this system is not adequately utilized, especially for the fuel stock reviewing purposes and refinery function.	The Tri-party agreement prepared with the consultation of Mr. Mohamed Ali Sabry by CPSTL was to be signed by three parties before the ERP go-live on 01st April 2010 has not been signed up to now. In year 2016, the agreement was re-drafted with the participation of legal officers and IT officers of the three organizations, legal officer from the MPRD, Mr. Nadun Perera/Legal Advisor to the Minister as a consultant while Mr. Lalith Liyanage, Director of CPSTL presided the committee. Finally, we were informed, that it has been sent to the AGs approval through the Ministry. Thereafter nothing happened. In April 2019, CPC Board has given a directive to sign a Bi-Party Agreement (as CPSTL IT function needs CPC team members to go and get the approvals from LIOC for any system modifications/new enhancement/etc.) between CPC and CPSTL and draft agreement was prepared and sent to CPSTL accordingly.	CPC should enter into an agreements without delay with the agreement of all related parties.

(c) Following observations are made with regard to Common User Facilities

(i) The Common User Facilities Share Holder's Agreement (GOSL/CPC/LIOC) dated 30th December 2003 entered into between Government of Sri Lanka (GOSL), Corporation and LIOC was expired on 31 December 2008 in terms of section 15 of the agreement. Therefore, the common user facilities covered under such agreements including the governance procedures of entities and the pricing formula used for the purpose of determining the throughput charges and Transport expenses including Slab charges (last revised in 2011) had not been revised with the agreement of all related parties.	CPC has not signed any agreement with CPSTL as mentioned by the Audit Report. Hence, there was no agreement to expire on 31st December 2008.	CPC should enter into an agreements without delay with the agreement of all related parties.
(ii) The Corporation had entered into an agreement with CPSTL without LIOC on 13th May 2019. According to this agreement, terms and condition in relation to storage and transport of petroleum product and the way of deciding the throughput between CPC and CPSTL were agreed. However, the terms and condition in relating to the same subject affected to the LIOC, a main user and a party who were in the Common User Facilities Share Holder's Agreement (GOSL/CPC/LIOC) dated 30th December 2003, were not defined. Therefore, it was observed that any impact on unfavourable conditions and cost had to be borne by the	(ii) CPC has not signed any common User Facility Agreement with CPSTL. Both parties signed an agreement between each other in 2019 in order to resolve the practical issues between the two organizations as there was no agreement between these two institutions.	CPC should enter into an agreements without delay with the agreement of all related parties.

Corporation in any event of LIOC refusing the terms and condition entered into between the Corporation and CPSTL.		
(iii) According to the Board Decision No. 43/1227 dated 03 May 2019, approval to increase the throughput charges was granted with effect from 01 April 2019. As a result of back dating the effective date, CPC had to pay extra amount of Rs.173.77 million for the month of April 2019.	(iii) 1. The decision has taken to increase terminal Charge at the Senior Management Meeting held on 26.03.2019. 2. Chairman / MD CPSTL has informed by the letter dated 29th March 2019 to CPC that CPSTL has approved the circulation Board Paper to revise the Terminal Charges levied from two Marketing Companies with effect from 01st April 2019 (Annexure-8) 3. Tariff Committee meeting held on 04th April 2019 also discussed this matter. (Annexure-9) 4. As per the above matters CPC Board has approved the increment of 27% of Terminal Charges with effect from 01.04.2019	Appropriate actions to be taken by the management as minimize the cost to the CPC.
(iv) 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 13th May 2019, maintenance of the pipelines or portions of pipelines to the accepted standards and provide storage facilities to maintain 02 months fuel stock is a responsibility of CPSTL. However, as a result of delaying in unloading fuel from a vessel due to blockages in the pipeline and inefficiencies in the storage system, the Corporation is compeled to pay demurrages. Accordingly, aggregated	(iv) CPC had already paid sum of USD 2,606,555.72 as demurrage from 2014 up to date and there are some more to be paid (appx. USD 12,644,257.29) due to the fact of poor maintenance of pipe lines, and two SPBMs to the accepted standards and not providing storage facilities sufficiently to cater the country demand at least two months.	Appropriate actions to be taken by the management as minimize the cost to the CPC.

amount of USD 2,606,556 had been paid and a sum of USD 12,644,257 to be paid as demurrages for the last 05 years without shifting such cost to service provider.		
(v) According to the agreements, throuput charges consist of Storage Terminal cost and profit margin. Storage Terminal Cost includes personal cost, overhead and maintenance cost and depreciation of the assets base of CPSTL. It implied that transport charges to CPSTL are separate from agreed throughput charges. However, audit was unable to ensure whether the transport related cost of the CPSTL was excluded when deciding the storage terminal cost of throuput charges. As a result reimbursement of transport charges to CPSTL could be duplicated. According to the records of the Corporation, an amount of Rs. 2,247.2 million had been paid as transport charges to CPSTL during the year under review.	The total cost of CPSTL owned bowser fleet was requested from CPSTL and 5% of throughput charges has been withheld from April 2020 to date in order to set off this duplication. But total transport charges on CPSTL own bowsers.	Appropriate actions to be taken by the management as minimize the cost to the CPC.
(vi) According to the definitions of the Common User Facilities Share Holders' Agreement (among CPC, LIOC and GOSL) dated 30 December 2003, Storage terminal Cost defined as *"(c) Interest at the rate of twelve per centum (12%) per annum on the loans being vested in the Company and forming a part of the storage assets and liabilities as well as further loans taken to bridge the cash deficit".* This agreements was expired on 31 December 2008. However, the Corporation	Noted, but as a remedy the following actions have been taken. 1. 1.173 Mn interest charge has been retain from payment for June 2016 to December 2017. 2. The decision has been taken to withdraw interest component of Terminal charge from 01.01.2018.	Appropriate actions to be taken by the management as minimize the cost to the CPC.

	had paid over Rs. 2,183 million as the interest portion for the period of 2009 to 2016 relating to the loans obtained from People's Bank in 2009 by CPSTL after the expiry of the agreement. It was observed that such payment had been made without proper evaluation and confirming the real amount to be paid in terms of the agreement.		
(vii)	Maintenance of the pipelines to the accepted standards and provide sufficient storage facilities is the main role of subsidiary company, CPSTL. Accordingly, a considerable amount of funds had been transferred to the CPSTL as throughput charges to the development of infrastructure relating to the storage and terminal facilities of the fuel supply in the country. CPSTL has charged Rs. 1,029.1 million as depreciation during the year under review and the amount for the last 10 years was Rs. 10,085.52 million. In addition, an amount of Rs. 3,400.97 million had been charged by the CPSTL as profit margin during the year under review and the total amount that was charged for the last ten years was Rs.40,802.66 million from both CPC and LIOC. However, audit was unable to ensure that the CPSTL has taken any favourable action to develop new infrastructure facilities and maintain the existing facilities promptly.	No relevant comment has been provided.	Appropriate actions to be taken by the management as minimize the cost to the CPC.
(d)	As stated in my previous year reports, the formal agreements for	CPC has made arrangements to forward the draft agreements to the	The Corporation should take the necessary action to enter into

fuel supply had not been entered into with 13 major customers including CEB who represent a total outstanding balance of Rs. 91,722 million as at the end of the year under review.	respective parties and the signing of the agreements after the finalizing of such agreements are in progress.	proper agreements with major customers.
(e) **Hedging Transactions** 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 2019 was Rs. 14,028 million. Moreover, the Commercial Bank had filed a case at the Commercial High Court, Colombo against the Corporation by claiming US$ 8,648,300. In addition to that, a sum of US$ 27.8 million plus interest is shown in the books of accounts of the People Bank as receivable from the Corporation with regard to the hedging transactions.	People's Bank has not initiated any action against CPC for hedging transactions.	Appropriate actions to be taken to settle the matter early.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) It was observed that the number of units sold and sales value of lubricant products of the Corporation has been gradually declined. According to the record of Public Utilities Commission of Sri Lanka, the Market share and market place in Sri Lankan Lubricant Market of the Corporation also had been gradually deteriorated. Market place of the Corporation up to third quarter of the year 2019 had been further deteriorated from 5th place to 6th place. However, net profit of the Lubricant sales of the	The Lubricant Sale Volume had decreased from 2016 and the Market Positions fell from 5 to 6, while securing a Market Share below 6%. However, the total market volume of the country has increased slowly. This lower sales volume was resulted by year dispute over the agreements had between CPC and M/S Hyrax Oil Sdn Bhd. The orders placement was delayed due to the indecision. Further to the comment (1) above the net profit percentage had slightly increased. The demand for Lubricant Products marketed by CPC prevailed.	Appropriate action should be taken to improve the lubricant business.

	Corporation had been increased. Therefore, it seems, the lubricant business is a profitable business in Sri Lanka for which less attention had been given by the Corporation.	However, there was not enough products in the market for the loyal customers by, due to disruptions and delays in the approval procedure, due to the disputed state of affairs between CPC and M/S Hyrax Oil Sdn Bhd. It is correct that lubricant business is a core area for CPC to invest and develop. The management, after finding out certain areas of the agreements, wanted to rectify those prior to producing and marketing lubricant products under CEYPETCO brand name.	
(b)	The Corporation has a highest sales network covering all part of the country consisting over 1,200 filling stations managed by the Corporation. In additions, the transport mode, billing process, stock control and monitoring of entire operation of Lubricant business could be easily managed in line with existing well established fuel storage and distribution network of the Corporation at minimum effort and cost. As a public entity, Corporation has a higher opportunity to be the lubricant provider of the government agencies including the government entities which widely use the lubricant products such as Tri-Forces, Police, the Electricity Board, the Water Board, the Road Development Authority, Railway, Sri Lanka Transport Board, etc… The Corporation has developed all infrastructure facilities in relation to storage and supply of lubricant product in Sri Lanka. In addition, the Corporation had entered into an agreement with Hyrax Oil SDN BHD (HOSB) to build a Lubricant Blending Plant in Sri Lanka under a Build, Operate and Transfer (BOT) basis on 06 May 2016 for a period	In April 2020, the commercial production at the new lubricant plant constructed and operated by M/S Hyrax was slowly commenced. The Covid-19 epidemic related situation created delays in production plant employee attendance and there were several problems due to raw material supply chain disruptions as per plant operator M/S Hyrax. From July 2020, the management plan to carry out marketing of lubricants through 1200 Filling Stations under the direct supervisor of the Area Managers and related Area Supervisors. Further, the pricing of CEYPETCO lubricant produced at the new blending plat were reduced considerably to improve competitiveness in the Sri Lanka market. The new prices were announced on 1st of August 2020 and the Stockist Network was interested to keep the supplies to CPC Filling Stations without products scarcity. In the meantime, a corporate discount of 20% was granted to Government Corporations and other Government institutes. At percent Sri Lanka Army, SL Navy, STF, SLTB and other Government entities are corresponding with CPC to by CEYPETCO lubricant products. CPC presently carrying out its marketing activities with a view to	Appropriate actions should be taken to increase the efficiency and effectiveness of the lubricant business.

	of 20 years. Further, a separate Lease Agreement and a Supply Agreement (enable to purchase the products from HOSB) had been signed with the HOSB on the same date by the Corporation. The construction works of the Lubricant Plant had been completed and ceremonially opened on June 24, 2019. However, Corporation has not commenced the operation with a feasible strategic business plan.	achieve around 1 million ltr/kg per month sales volume, which would correspond to around 20% market share by December 2020.	
(c)	It was observed a considerable delay in completion of the procurement process. As a result, lack of stocks in the warehouse, shortage of lubricants and grease products in the market and possibility of attracting customers to competing firms were observed.	Agreement is being made to obtain a covering approval of Cabinet Appointed Procurement Committee. In the meantime, small orders are being placed to supplement the market requirement. Greases, Brake Fluid and Coolant will be imported by M/S Hyrax by supply CPC were as all other lubricants products will be manufactured locally at the new blending plant operated by M/S Hyrax.	Appropriate actions should be taken to efficient the procurement process.
(d)	There are 04 lubricant depots including the main depot located at the Muthurajawela Terminal. However, proper records including stock levels of each product were not maintained in the depots. Irregular storing of stocks, storing without considering the environmental factors such as temperature and a large damaged lubricants stocks were observed at the audit inspection in the warehouses. Further, action had not been taken to identified the stock loss of over Rs.6 million, at the special physical inventory verification carried out in October 2018.	There is only one lubricant storage maintained by CPC to store CEYPETCO lubricant products. The stockiest are supposed to maintain sufficient stocks to supply the demand in Filling Stations. CPC storage at Muthurajawela is furnished with safe storage facilities under controlled temperature and are fitted with heavy industrial fans around its walls. The staff are skilled handled storage of products and forklifts and designated storage plane is use. The stock loss referred to has been due to problems in accumulating the damage stocks, salvaged stocks and other in transit products. This has been studied and another stock of salvaged products are to be sent to new blending plant to rework.	Proper records should be maintained and stock should be handled in a manner that minimize stock damage.
(e)	As stated in my previous year reports, the formal agreements for	Some agreements are in draft format and yet to be finalized, and payments of	Appropriate actions to be taken to enter for formal

fuel supply had not been entered into with 13 major customers including CEB who represent a total outstanding balance of Rs. 91,722 million as at the end of the year under review.	some customers are routed through the general treasury.	agreements with major customers
(f) Storage and Distribution of Petroleum Product My special report which assessed the adequacy of the existing petroleum storage capacity that is currently utilized in Sri Lanka, evaluate the appropriateness and productivity of the fuel transport pipeline system, railway and bowser transport system currently in operation in Sri Lanka and make recommendations on measures to be taken for the smooth and safe operation of the petroleum storage complex and fuel transport systems in the country had been tabled in Parliament. The report is available in the official website of the National Audit office of Sri Lanka.		It should be paid immediate attention to implement the recommendations made in the special report.
(g) **Tricomalee Tank Farm** The Tank Farm contained of 100 Oil Tanks, each having a capacity of 12,500 cubic meters (m^3) (10,000 MT) and other associated facilities, had been constructed 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	On or about December 1963 the Government entered into an agreement with the British Government for the purpose of the buildings and equipment at the Oil Installation Premises for a sum of GBP 250,000.This amount had been paid by CPC in three installments. CPC has not been received any ownership document up to date.	It should be paid immediate attention to clear the ownership of farm and initiate the petroleum related business using the available resources in the farm.

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 Lanka Indian Oil Company (LIOC) and the Corporation to lease out the storage facilities and the land to the LIOC for a period of 35 years and this lease agreement should be executed within 6 months from the date of the agreement. The Corporation neither entered into any lease agreement nor use the tanks. However, LIOC is using those assets from the year 2003.		
(h) Stock Review Committee		
As stated in previous audit reports, the Stock Review Committee consisted of members from the Corporation, CPSTL, JCT Oil Bank and LIOC, members of CEB and an officer from the line Ministry and its meetings are held in every week. However, the Corporation had not maintained proper records relating to the stock levels, i.e. re-order level, maximum and minimum levels, and re-order quantity etc. in each petroleum product. The order quantity of petroleum products was decided solely based on the Stock Quantity Maintenance Report submitted by the CPSTL and no any other documents with regard to the maintenance of stocks of petroleum products had been submitted to the Stock Review Committee. However, it was revealed that, since the introduction of SAP system in 2010, the Corporation was unable to extract data to produce the reports on stock requirement.	In addition to the stock quantity maintained report submit by the CPSTL, stock data available in SAP system will also be taken in to account during last three years and also the sales figures are supplied by the Marketing Manager of CPC and LOIC stocks verification data and number of days that their stocks are sufficient are provided by the CPC finance are being considered.	Proper records of stocks should be maintained by the corporation

(i) Sapugaskanda Oil Refinery As stated in previous audit reports, the existing Refinery which had been constructed five decade back (commissioned in 1969) is a basic Refinery and is not being able to cater the increasing demand of petroleum products in the country and this Refinery is operating with low margin when compared with refineries operating with advanced technologies including facilities to produce petroleum products at lower cost and capabilities to upgrade bottom products to high value products such as petrol and diesel, whereby 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 by incurring of Rs. 1,003 million for that purpose had been laying idle even up to the date of this report	Several investors approached the CPC management to develop the refinery and in 2018 and 2019 but final implementation proposal has not yet been confirmed. As the project delay is purely due to unavailability of funding. It has been identified that 35 acres land previously for SOREM project and idled at the moment can be utilized when an investor is selected to build a refinery to cater the country requirement and most probably it may be required to acquire more lands for final implementation as the required refining capacity is higher now compared to SOREM plan.	It must be given a greater attention to upgrade the existing refinery and build a new as to satisfy the country demand at lowest cost

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) **Halgaha Kumbura Land at Wanathamulla -** This land 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 intendant purpose and it had been occupied by more than 700 squatters.	We agree with the Statement. CPC is not in a position to allocate houses for more than 700 families. Action can be taken in the Magistrate's Court to evict all the occupants. But Hon. Attorney – General also has informed to discuss with relevant Ministries due to the social impact which can be arisen in eviction.	Steps to be taken to evict the unauthorized occupants as per the provisions in the State Land (Recovery of Possession) Act as mentioned.

	Several attempts were made by CPC through the Ministry of Petroleum to hand over the land and obtain a payment based on a government valuation but was failed**.**	
(b) **Mahahena Land –** According to the correspondence made available, the Corporation had acquired this land by spending Rs. 0.625 million, and it had not been accounted for. However, this land is being utilized by the previous owner even after the acquisition in 1986.	(ii) Mahahena Land The extent of this land is 21.18 Perches. The Divisional Secretary, Kolonnawa has handed over 06 lots to CPC from this land. Steps have been taken by the Divisional Secretary, Kolonnawa to evict the occupants in order to hand over same to CPC.	Legal actions to be taken to evict the unauthorized occupants and utilize the property for betterment of the Corporation.