

Fuel Price Stabilization Price - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Fuel Price Stabilization Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of income and the cash flow statement and the notes in relation with the financial statements, including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154 (3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in Paragraph 1.6 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 Emphasis of Matters

The attention is drawn to the going concern shown under Note Nos. 04 and 05 of financial statements and thereby, it had been stated that there was a material uncertainty about the ability of going concern of the Fund and as a result, it could not be realized the revenue of the Fund and the settlement of liabilities within the normal cause of business activities. Similarly, the Director General of the Department of Public Enterprises who is the Secretary of the Fund had informed me that it was proposed to submit a proposal to the Cabinet of Ministers to abolish this Fund expeditiously in future and thereby it was stipulated to obtain the approval of the Parliament in respect of the matters such as to undertake the establishment of the Fund, settlement of transactions and liabilities therein by the General Treasury the liquidations.

1.4 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16 (1) of the National Audit Act No. 19 of 2018, it is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

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

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

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

- Identifying and assessing 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.
- Though an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances was obtained, it was not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Concluded on the appropriateness of the Management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.6 Audit Observations on Preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	As a result of the decision taken by the Management as this Fund does not have a going concern, although the value of Rs. 48,000,000,000 invested by the Fund for the capital contribution of the Ceylon Electricity Board had been classified as current assets, it was a questionable matter in audit that in practice, how can it be realized within twelve months after the reporting period.	It is stipulated to submit a proposal to the Cabinet in the near future to abolish this Fund and after obtaining the approval for it, Parliamentary approval is to be obtained for the establishment of the Fund, its transactions and settlement of liabilities from the Treasury, liquidation,	Further actions should be taken in respect of the assets consisted in the financial statements with a proper approval.

etc. through the Budget 2022. Based on that, all liabilities in the financial statements have been classified as current liabilities and corrected.

(b) Out of Rs.47,472,450,000 provided to this Fund by issuing Treasury Bills by the Department of Treasury Operations and classified as current liabilities, the cash balance remained in the Fund to pay a sum of Rs.26,673,196,758 furthermore as at 31 December 2020 was only Rs.378,108,419. Accordingly, due to the fact that the lack of going concern of the Fund and unavailability of sufficient money by the Fund to settle the financial commitment, a material uncertainty had arisen on the solvency of the Fund.

There were no receipts of surcharges after 09 January 2021 . The bank balance has been updated until then and that balance is Rs. 1,107,728,128.74 .

Further actions should be taken in respect of the liabilities consisted in the financial statements with a proper approval.

(c) Preparation of financial statements was to be done by the Secretary of the Fund who was the Director General of the Department of Public Enterprises in terms of Decision of Cabinet of Ministers No. 20/0684/ 204/060 dated 02 April 2020 and Paragraph 03 of the even No. of Memorandum of Cabinet of Ministers dated 31 March 2020 relevant to that. Although the preparation of financial statements should have been done by the Director General of the Department of Public Enterprises, who was the Secretary to the Fund. Even though the Chairman and one other member of the Management Committee should certify and submit the financial statements for audit, the financial statements had been submitted for audit only with the signature of the aforesaid Secretary.

Agree.

The submission of financial statements should be made formal.

- (d) The statement of financial position had not consisted of a declaration of accountability at the end. Disclosures of all the accounting policies have been made. The submission of financial statements should be made formal.

1.6.2 Unauthorized Transactions

Audit Observation	Comments of the Management	Recommendation
<p>The revenues that are received from all the taxes, imports, rates and duties and all other revenues and receipts of the Republic not allocated to specific purposes should be paid to the Consolidated Fund in terms of Article 149 of the Constitution. Nevertheless, the revenue from surcharge levied on fuel prices from 14 March 2020 had been credited to the Fuel Price Stabilization Fund without being so credited.</p>	<p>The Fuel Price Stabilization Fund is a fund that had been established outside the Consolidated Fund. The surcharge which is automatically calculated by the IT system of the Sri Lanka Customs is remitted to the bank account of the Fuel Price Stabilization Fund as per the Gazette Notifications issued on the rates subject to the revisions from time to time based on each type of fuel imported and the number of liters.</p>	<p>Arrangements should be made to establish the Fund formally through a Parliamentary Act</p>

1.7 Non-compliance with Laws, Rules and Regulations

Non-compliance to the Laws, Rules, Regulations	Non-compliance	Comments of the Management	Recommendation
<p>Article 149 of the Constitution and Public Finance Circular No. 01/2020 dated 29 August 2020</p>	<p>The approval of Parliament should be obtained within a year for this Fund that had commenced the collection of revenue and incurring expenditure on 18 March 2020 non-</p>	<p>Agree. However, it is proposed to submit a proposal to the Cabinet promptly in future to abolish this Fund and after getting approval for that, it is stipulated to obtain parliamentary approval with</p>	<p>Actions should be taken in accordance with the provisions of the relevant Constitution.</p>

compliance with the Appropriation Act had not been received even by the date of audit 06 September 2021.

respect to all activities of the Fund, including the undertaking of the establishment of the Fund and settling its transactions and liabilities by the General Treasury, liquidation through the Budget 2022 as per P.F.Circular 01/2020 .

1.8 Investment Management

Audit Observation

Comments of the Management

Although the expected goal to establish a price stabilization fund is controlling the price fluctuations during price increases and decreases and maintaining a price in stable, the maintaining of this surplus as a liquid asset to keep domestic prices stable was not mentioned neither in the Memorandum nor the Decision of the Cabinet of Ministers and the amount of Rs. 48 Billion of the Fund was provided as a capital contribution to the Electricity Board as per its approval and it had been shown under short term investment in the statement of financial position.

Answer has not been given.

2. Financial Review

Despite the falling of fuel prices in the world market, the Fuel Price Stabilization Fund had earned a net surplus of Rs. 21,705,914,462 within the period from March to December 2020 by selling of fuel at the existing price after levying surcharges by Sri Lanka Customs on fuel imports. Accordingly, the operating result of the Fund for the year under review was a surplus of Rs. 21,705,911,662 .

3. Accountability and Good Governance

3.1 Submission of Financial Statements.

Audit Observation	Comments of the Management	Recommendation
Although appointing a Committee or issuing of orders should be made to manage the above Fund in accordance with the Decision of Cabinet of Ministers No. 20/0684/204/060 dated 02 April 2020 and the relevant even No. and Paragraph 02 of the Memorandum of Cabinet of Ministers dated 31 March 2020, actions had not been so done.	Agree.	The submission of financial statements should be made formal.

4. Establishment of the Fund and Collection of Revenue

4.1 Operational Activities of the Fund

	Audit Observation	Comments of the Management	Recommendation
(a)	Even though the Department of Treasury Operations had provided a sum of Rs. 47,472,450,000 to the Fuel Price Stabilization Fund by raising funds to the Consolidated Fund issuing Treasury Bills, it was observed that there was no proper provision made available by Parliament for this purpose in the year 2020 .	The initial capital required for the Fuel Price Stabilization Fund amounting to Rs. 47.472 Billion has been obtained as an advance by Treasury Bills through the mechanism of the Treasury Operations Department. Similarly, issuance and releases of Treasury Bills are done by main ledger accounts.	Provisions should be made available in a proper manner.
(b) (i)	As per the Note submitted by the Director General of the Department of Trade and Investment Policy on 11 March 2020 to the Minister of Finance, Economic and Policy Development for approval through the Secretary to the Treasury, it had been informed that the price of crude oil in the international market had dropped by 42.5 per cent by 09 March 2020 and a barrel was about US\$ 34.63 at the time and it was US\$ 59.73 by September 2019 . As per the calculations submitted to the audit in this regard , the price of a litre of fuel was expected to fall as follows due to the decline in crude oil prices	Agree.	

	Petrol 92 Octane	Petrol 95 Octane	Auto Diesel	Super Diesel
	Rs.	Rs.	Rs.	Rs.
Price Adjustment (per liter) (Approximately)	12	15	14	20

- (ii) The evaluations had been carried out under 04 alternatives as providing the entire provision of the advantage of this price reduction to the public after recovering the tax concessions granted, increasing of the tax collection and get the total benefit to the government revenue, reducing the retail price of fuel and recovering of losses incurred by fuel suppliers during the last 05 months without changing the fuel prices. Agree.
- (iii) However, the approval of the Minister of Finance, Economic and Policy Development had been expected to impose surcharges under the Customs Ordinance or reduce market prices for the savings of price decrease as Rs.11 for auto diesel, Rs.15 for 95 octane petrol and Rs.20 for super diesel as per Paragraph (b) of the Note of the Director General of the Department of Trade and Investment. Agree.
- (iv) Accordingly, surcharge to be levied with fuel and related duty as follows had been prescribed with effect for a period of 02 months from 14 March 2020 by Extraordinary Gazette Notification No. 2166/35 published on 13 March 2020 . Agree.

	Petrol 92 Octane	Petrol 95 Octane	Auto Diesel	Super Diesel
	Rs.	Rs.	Rs.	Rs.
Surcharge (Per Litre)	0	15	11	20

- (v) Subsequently, the value of surcharge had been amended by the Extraordinary Gazette Notification as follows at the instances of the price of crude oil in the international market fluctuated.

Gazette No.	Date	Effective Time Period	Petrol 92 Octane	Petrol 95 Octane	Auto Diesel	Super Diesel
			Rs.	Rs.	Rs.	Rs.
2172/6	2020. 04.22	02 Months from 23.04.2020	26	49	24	40
2181/ 13	2020. 06.24	02 Months from that date	0	20	12	30
2189/ 57	2020. 08.23	03 Months from 24.08.2020	0	20	12	30
2203/1	2020. 11.23	03 Months from 24.11.2020	0	20	12	30
2213/7	2021. 02.01	From 02.02.2021 to 23.02.2021	0	0	0	0

The Auditors have called information only up to 31.12.2020. All the information available to this Department has been provided to the auditors until then. However, there were no surcharges after 09 January 2021. The bank balance has been updated and it was Rs.1,107,728,128.74.

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| <p>(vi) Even though the Order issued by the Extraordinary Gazette Notification No. 2203/1 dated 23 November 2020 had been canceled by the Extraordinary Gazette Notification No. 2213/7 dated 01 February 2021 with effect from 02 February 2021, information on the implementation of the relevant surcharge (after 23 February 2021) was not revealed.</p> | <p>Answer has not been given.</p> |
| <p>(c) Actions had been taken to release the relevant Treasury Bills totalled to Rs. 20,799,253,242 through the external liability account maintains for the Department of Treasury Operations in the months of August, October and December of the current year as Rs.12,000,000,442, Rs. 6,054,992,400 and Rs. 2,744,260,400 respectively .</p> | <p>After obtaining the Decisions of the Cabinet of Ministers, the relevant liabilities are the responsibility of the General Treasury and after that the actions will be taken to settle the 100% of the relevant liabilities.</p> |
| <p>(d) Although the amount to be paid to the Department of Treasury Operations by the Fuel Price Stabilization Fund as at 31 December 2020 was Rs. 26,673,196,758, the face value of Treasury Bills corresponding to that value had been Rs. 29,200,746,758 . Accordingly, it was observed that the difference of Rs. 2,527,550,000 which was the discount value of relevant Treasury Bills in relation to this process as a cost to the Consolidated Fund.</p> | <p>After obtaining the Decisions of the Cabinet of Ministers, the relevant liabilities are the responsibility of the General Treasury and after that the actions will be taken to settle the 100% of the relevant liabilities.</p> |
| <p>(e) Even though the Secretary of the Treasury was ordered to take necessary steps to release the funds of Rs. 48 Billion from the Treasury to strengthen the Fuel Price Stabilization Fund as per a decision taken at the Meeting of Cabinet of Ministers held on 18 January 2021, the order had not been executed even by the date of the audit.</p> | <p>So far, the relevant Rs. 48 billion was not released as the Covid epidemic situation in the country and its priority functions as well as the funding status of the Treasury. As necessary actions will be taken in future to abolish this Fund, it will be considered in future whether this releasement should be made or not.</p> <p>Necessary further steps should be taken as per the decision of the Cabinet of Ministers.</p> |