Ceylon Petroleum Corporation - 2021

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1 Financial Statements

1.1. Qualified Opinion

The audit of the financial statements of the Ceylon Petroleum Corporation (Corporation) and its subsidiary ("Group") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation and the Group as at 31 December 2021, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2. Emphasis of Matters

I draw attention to Note 07 & 27 to the financial statements which describe the uncertainty related to assessment raised by Inland Revenue Department to the Corporation which describes the long outstanding balances of totaling Rs. 10.346 million of Income Tax, Value Added Tax (VAT) and Pay as You Earn tax (PAYE). My opinion is not qualified in respect of this matter.

1.3. 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.

1.4. 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 Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Corporation and the Group.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

1.6. Audit Observations on the preparation of Financial Statements

1.6.1 Non-Compliance with Sri Lanka Accounting Standards

Non-Compliance with the reference to particular Standard	**Management Comment**	**Recommendation**
In contrary to the requirements of LKAS 16, fully depreciated assets amounting to Rs. 10,654.46 million had been continuously used by the Corporation without being reassessed the useful economic lifetime and accounting for. Further, an audit test check revealed that, 22 lots of land belonged to the Corporation as at the end of the year under review had not been revalued, and accordingly, a substantially lower amount had been shown as land in the financial statements.	Noted. But the reassessment of useful life of fully depreciated assets (PPE) is not practicable with the accounting adjustment.	It should be adhered to the standards.

1.6.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Inter Company Balances		
According to the records of the Corporation, the net amount payable to the Ceylon Petroleum Storage Terminal Ltd (CPSTL), the subsidiary of the Corporation, was Rs. 7,669 million which had comprised amounts payable to the CPSTL and amounts receivable from the CPSTL of Rs. 8,331 million and Rs. 662 million respectively. However, as per the financial statements of the CPSTL, the net amount receivable from the Corporation was Rs. 8,204 million which had comprised amounts receivable from the Corporation and amounts payable to the Corporation amounting to Rs. 8,608 million and Rs. 404 million respectively. Therefore, there was a difference of Rs. 535 million (comprising Rs. 277 million and Rs. 258 million respectively) in the intercompany balances of two entities.	The reconciliation statements of intercompany balances are given in order to verify the difference of Rs. 433.99 million between two parties.	Appropriate actions should be taken to clear all disputed balances and correct figures should be included in the consolidated financial statements.
(b) Kerosene Subsidy		
As per the Treasury Circular Letters No. FP/06/100/02/2016 dated 24 November 2015 and No. TTIP/1/83(1)T dated 04 December 2014, the Government has agreed to reimburse the loss incurred by the Corporation as Government subsidy due to price reduction of kerosene. Accordingly, even though the total subsidy receivable at the end of the year under review was amounted to Rs. 44,102.30 million, only a sum of Rs. 5,097.72 million had been accounted	The government reimbursed Rs. 4,459 million as a set-off against Excise Duty and no reimbursements made after that. Further, the government (General Treasury) is also not confirming the reimbursement of the Kerosene subsidy. Accordingly, The Corporation has not recognized the Kerosene subsidy in the financial statements from 2017 onwards. However; the continuous follow-ups	Appropriate action should be taken to recover all the unrecovered subsidies and account for accordingly. All the applicable taxes to be paid in terms of tax law.

for. As a result, the subsidy receivable as at the end of the year under review had understated by Rs. 39,004.58 million while the income had understated by Rs. 8,973.75 million in the year under review and by Rs. 30,030.83 million in the previous years. Further, all direct and indirect taxes on that income had not been paid and accounted.	are in the process to recover balances. The recognition in the financial statements will be made on the receipt of the subsidy or confirmation to pay by the General Treasury.	
(c) Collection of Monthly Utility Fee (MUF)		
According to the Board Decision No. 38/1140 dated 29 October 2013, the Board had approved to charge a Monthly Utility Fee (MUF) from all Corporation Owned Dealer Operated (CODO) Filling Stations and Treasury Owned Dealer Operated (TODO) Filling Stations with effect from 01 January 2014. However, this decision had not been fully implemented, and accordingly, the loss of income for the year under review was Rs. 510.223 million and the accumulated loss of income as at the end of the year under review was Rs. 3,557 million. As a result, the net income for the year under review and the current assets and accumulated income/retained earnings as at the end of the year under review had understated by similar amounts respectively. According to the Board Decision No. 27/1267 dated 06 July 2022, the Managing Director had informed to the Board that collection of MUF had been initiated with effect from 01 July 2022. However, appropriate actions had not been taken by the Corporation to recover the accumulated MUF from dealers up to 10 March 2023 As a result, accumulated loss of income as at 31 October 2022 had increased to Rs. 4,011 million.	Accounting of Monthly Utility Fees was started from July 2022 and recovery also following up. Further recovery of accumulated MUF could be accounted and recovered after obtaining the directive from the Management.	The board decisions should be implemented without delay. Appropriate action to be taken to recover the loss of income from responsible parties.

(d) Taxes on Understated Dealer Commissions NBT and other related taxes that had to be paid to the Inland Revenue Department (IRD), in rectification of error relating to the understatement of dealer commissions in the financial statement of the Corporation, had not been fully adjusted in the accounts and paid. As a result, there was a risk of underestimation of related tax liability for the respective years of assessment by the Corporation. Further, amended tax returns in relation to that rectification had not been submitted to the IRD yet.	Management comment had not been given.	Appropriate actions should be taken to make the relevant adjustment in the accounts and pay taxes to Inland Revenue Department.

1.6.3 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
(a) Taxable income of the Corporation had been underestimated by Rs. 3,243 million due to making an adjustment for excise duty, and that amount had been recognized as Nation Building Tax (NBT) payable to IRD in the financial statements of the year 2018. However, that balance had been remained un-settled in the books of accounts for a longer period without being settled. Further, amended NBT returns had not been submitted.	The Corporation faces many cash flow shortages & difficulties due to the loss-making position and negative equity capital position. Therefore, the provided amount of Rs. 2,627 million has not been settled and the related liabilities have been informed to IRD through the meetings had with IRD to discuss the outstanding tax matters time to time.	The amended NBT returns have to be submitted to the IRD and appropriate actions should be taken to clear all the unreconciled balances with IRD
(b) According to the Gross Margin Statement, the sales quantity for the year under review was 4,533 million Litres, while the sales quantity as per the ERP (SAP) system was 5,485 million Litres. Accordingly, an unadjusted difference in sales volume of 952 million litres was observed. Consequently, the sales quantity of Lanka Petrol (92 Octane),	Reasons for the difference between Gross Margin Statement (GMS) and ERP (SAP) system are summarized and there were 16 reasons for the differences	Appropriate action should be taken to clear all the un reconciled balances of sales quantities.

Lanka Auto Diesel and Jet A1 in GMS had overstated by 15,885 litres, 65,631 litres and 189,570 litres respectively. Further, the sales quantity of Naphtha and Furnace Oil in GMS had understated by 453 million litres and 463 million litres respectively when compared with the quantity stated in the ERP (SAP) system.		

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

The audit opinion on the financial statements of the CPSTL, the subsidiary, for the year under review was qualified by me due to the following matters which will cause to a disagreement with the corresponding balances/transactions of the Corporation and the Group. Further, an emphasis of matter was included in relation to the Note 10.5 to the financial statements which describes revaluation of fixed assets to bring up to its fair value where the Company had not established a proper policy to revalue its assets since its inception in 2003, and accordingly, Rs. 7,875.28 million worth of fully depreciated property plant and equipment, comprising 22,902 items, had been continuously used by the Company without being reassessed and accounted for the useful economic lifetime and Note 20.1(b) to the financial statements which describes the assessment raised by Inland Revenue Department to the Company relating to the long outstanding balances totaling Rs. 897 million of Income Tax, Value Added Tax (VAT) and Pay as You Earn tax (PAYE).

(a) Non-Compliance with Sri Lanka Accounting Standard

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
(i) Completed construction work amounting to Rs.142.5 million had been remained as work in progress (WIP) without transferring to the Property plant and equipment. Further, the provision for depreciation had not been provided as per the LKAS 16 for the above asset.	The total cost incurred on WIP will be transferred to main assets along with the final retention payable after submission of final contractor's invoice certified by the engineers.	The Company should comply with the requirement of the Standard.

(ii) The Company had incurred a sum of Rs. 10.2 million during the year 2021 for renovation of official residence of the Minister of Energy which had not been belonged to the Company, and it had been recorded as WIP in the financial statement of the year under review.	Secretary to the Ministry of Energy has reimbursed an amount of Rs. 12,984,317/- during the year for renovation of official residence of minister of energy and once total cost of renovation is reimbursed by Ministry of Energy; work-in-progress account will be automatically cleared.	The expenditure relating to the Company should be disclosed in the financial statements.

(b) Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
The aggregated exchange gain of Rs.92.134 million arising in connection with conversion of foreign currency denominated bank balances into Rupees over a period of more than 5 years was fully recognized as income in the year under review. However, out of that exchange gain, sums of Rs.19.898 million, Rs.20.290 million and Rs.51.946 million were related to the years of 2021, 2020 and prior to 2020 respectively. Consequently, the balance of cash and cash equivalent as at the end of the year 2020 and the income of exchange gain for the year 2020 had understated by Rs.72.235 million and Rs.20.29 million respectively. Further, the exchange gain for the year under review had overstated by Rs.72.235 million.	The management comment had not been given.	The Company should comply with relevant standards.

(c) Accounts Receivable and Payable

Audit Issue		Management Comment	Recommendation
	Receivables		
(i)	There was a trade and other receivable balance (including related parties) of Rs.11,246.6 million as at the end of the year under review, and out of which a balance of other receivables amounting to Rs.7.6 million had been remained unrecovered for over 5 years. However, balance confirmations especially on recoverability of them were not made available to audit.	Most of these balances are carried forward from prior to SAP ERP implementation in year 2010. The Audit & Management Committee recommended to write off these long outstanding balances with the prior approval of Board of Directors.	Appropriate action should be taken to recover or get remedial action on long term outstanding receivable balances.
(ii)	There were credit balances in 07 other receivable accounts amounting to Rs.2.6 million as at the end of the year under review. However, the Company had made some subsequent transactions with those suppliers without being cleared their credit balances. Therefore, existence and accuracy of those credit balances were questionable in audit.	Maximum efforts have been taken to recover these outstanding balances. Likelihood of recoverability of these balances are very remote. Audit & Management Committee recommended to write off these long outstanding balances with the prior approval of Board of Directors.	Appropriate action should be taken to get all balances cleared.
	Payables		
(iii)	The aggregate of 25 payable balances amounting to Rs.1.5 million had been outstanding for over 05 years, and 13 payable balances amounting to Rs.0.8 million had been outstanding ranging from 01 to 05 years as at the end of the year under review. Accordingly, existence and accuracy of those balances could not be ascertained properly in audit.	There were certain vendor liabilities lying as long outstanding payables where creditors do not demand the payment due to an oversight.	Appropriate action should be taken relating to the long outstanding balances.

(iv)	There were 20 debit balances in trade and other payable accounts amounting to Rs.6 million as at the end of the year under review. Ten debit balances, out of the above, amounting to Rs.4 million had been remained unsettled for over 5 years, and other 10 debit balances included in the trade and other payable accounts amounting Rs.2 million had been remained unsettled ranging from 01 to 05 years.	Most of the debit balances in Vendor accounts are reflected due to reversal of erroneous invoice verifications in SAP (MIRO) without clearing the balances.	Appropriate action should be taken to reconcile the balances.

(c) Related Party Transactions

	Audit Issue	Management Comment	Recommendation
i.	According to the records maintained by the Company, amounts receivable from and payable to the CPC had been Rs.8,608 million and Rs.404 million respectively. However, as per the records maintained by the CPC, the amount payable to and receivable from the Company had been Rs.8,331 million and Rs.662 million respectively. Accordingly, it was observed that there was a net difference of Rs.535 million, which had comprised a sum of Rs.277 million of receivables and a sum of Rs.258 million of payables respectively in the intercompany balances between the two entities.	Reasons for the variances are as follows, 1. Rs.53,548,548 - SAP Maintenance charges receivable not accounted by CPC 2. Rs.203,088,745 - Write off outstanding transport income 2021 not accounted by CPC 3. Rs.194,529,679 - Throughput & Transport charges which are not accounted in CPC books 4. Rs.44,906,835 - Accounted by CPSTL but not accounted by CPC 5. Rs.4,737,293 - Miscellaneous invoices not accounted by CPSTL 6. Rs.339,355,980 - Accounted by CPC but not accounted by CPSTL	Appropriate action should be taken to clear all the disputed balances and disclose in the financial statements
ii.	According to the records maintained by the Company, the amount receivable from the LIOC was amounted to Rs.710 million while the confirmation received from LIOC, the amount payable to the Company, was amounted to Rs.715 million.	Reasons for the variances are as follows, 1. Rs.1,183,454 – Port operation & lab charges- unaccounted in LIOC books 2. Rs.273,996 – Transport charges not paid by LIOC	- Do -

Accordingly, it was observed that there was a difference of Rs.5 million between the two entities in the intercompany balances.	3. Rs.9,131,909 – Throughput income difference not paid by LIOC Rs.2,495,897 – Disputed invoices – unaccounted in CPSTL books	

(d) Correction of Prior Year Errors

Audit Issue	Management Comment	Recommendation
As stated in the Note No.22.1 to the financial statements for the year under review, the over-recoveries of transport charges from CPC amounting to Rs.77.8 million, Rs.125.3 million and Rs.157.264 million for the years of 2019, 2020 and 2021 respectively had been rectified retrospectively. However, instead of restating the over charged transport income in the relevant year, it had been recorded as other operating expense. As a result, income and the gross profit of the Company and other operating expenses shown in the financial statements had overstated by Rs.125 million and by Rs.157 million for the years of 2020 and 2021 respectively. Further, cumulative effect to the retain earnings of Rs.57 million as at 01 January 2020 had not been adjusted, and the corresponding tax saving for the year 2019 had erroneously overstated by Rs.2 million.	Management comment had not been given.	The Company should comply with requirement of LKAS 08.

1.6.5 Going Concern of the Corporation

Audit Issue	Management Comment	Recommendation
Attention is drawn to the matter that the operations of the Corporation had resulted in a loss after tax of Rs.82,225.78 million for the year ended 2021, and accordingly, had recorded a negative net assets position of Rs. 357,536.67 million as at the end of the year under review. Significant increase in short-term borrowings and hence continued rise in finance costs, negative impact of exchange rate fluctuations, increase in dealer commissions, inappropriate pricing policy decisions and long-term negative effects of previous hedging transactions had	As main petroleum product prices are decided by the Government even below the total cost, CPC had to incur the loss over historically. Although the CPC operates with negative net assets, CPC continue its operation on going concern basis as the Government backed for the operations to ensure	The management should pay special attention to enhance the financial stability of the Corporation.

caused the Corporation to incur huge losses in the past years. As a result, the net asset position of the corporation had further eroded. Thus, the ability of the Corporation to continue as a going concern without the financial assistance from the Government is in doubt.	the energy security of the country.	

1.6.6 Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
(a) Written-off receivable balances		
i. As per the Board decision No. 08/1252 dated 22 July 2021, it was approved to write-off the receivable balance amounting to Rs. 1,516.039 million from the books of accounts of the Corporation due to lack of sufficient information. However, according to the information made available, it was unable to ascertain in audit whether the Board had taken proper actions to check any possibility of occurring fraudulent actions with that balance based transactions and events before taking a decision to write-off the receivables. Also, no any action had been taken against the officers who had been responsible to maintain documents relating to that balance. Further, it was unable to ascertain in audit whether the Corporation had complied with the requirements of the Public Finance Circular No. 01/2020 dated 28 August 2020 in this regard.	The write-off balances were appearing from the ledger by passing entries in the year 2011. Sufficient documents, details and information of these entries were not available in SAP system and cannot be located in Finance of these receivables were requested from Shipping Function. Hence, the existing and values and it was informed that it is difficult to find out any receivable amount of Rs. 1,189,647,149.02 from Sri Lanka Customs without correct references. Further it was informed that they are unable to identify VAT payment received from Sri Lanka Customs (Rs. 326,394,420.00).	It should be adhered to the Circular and proper records should be maintained while improving the IT general controls.
ii. Two dummy accounts, namely “RF Dummy and HO Dummy”, a sum of Rs. 103.82 million which were continually remained unsettled for a longer period under accrued charges in the financial statements, had been written-off/back in the year under review without being clarified the possibility of settlement.	The written off credit balances under “RF Dummy and HO Dummy” consisted with opening balances in the existing accounting system, carried forward from previous accounting system. Further details of these balances were not available until they were written off. Since these balances were available from	Prompt actions should be taken to clear unidentified balances before write-off.

	01.04.2010 and no any claims were received, it is prudent to write off from the books of accounts in order to maintain accurate set of accounts.	

(b) Cash and Cash Equivalents

A sum of Rs. 186.249 million had been recorded in the books of accounts as payments made to the Director General of Customs during the period from 2017 to 2022 through 22 journal entries. However, in fact such payments had not been made to the Customs, and no any cheque had been issued in this regard. Management of the Corporation was unable to explain the reasons for recording such transactions. Nevertheless, the risk of fraudulent misappropriation through inaccurate accounting practices could not be ruled out in the audit, and it could have caused to unfair presentation of financial statements. As a result, bank balances and the related payable balances had understated by similar amount.	Although the cheques had been cancelled in the respective years but the reversing the payment voucher has not been done. Reversing the payment voucher has already done subsequently.	A proper internal control system should be implemented by the Corporation.

1.6.7 Accounts Receivable and Payable

Audit Issue	**Management Comment**	**Recommendation**
(a) As per the age analysis of trade receivables shown in the financial statements of the year under review, 78 debit balances amounting to Rs. 2,308.285 million and 20 credit balances amounting to Rs. 7.706 million were remained unrecovered/ unsettled for more than 05 years. However, it was observed that subsequent transactions with those customers had been carried out without being cleared the outstanding balances.	The Said differences have been arisen due to following reasons • Some invoices have not been accounted by the respective customers • Impose of delayed interest by CPC • Some disputed due to price revisions • Some dispute on short delivery. • Some payment by the customers may not be accounted by CPC Further customers who are not aware	Appropriate action should be taken to recover or get remedial action on long term outstanding receivable balances.

	Accordingly, the accuracy and existence of those balances could not be ascertained in audit.	of the charges made at the yearend had been settle subsequently.	
(b)	16 debit balances of Rs. 137.548 million which were outstanding for more than 05 years, and 18 debit balances of Rs. 1,164.044 million which were outstanding ranging from 01 to 05 years had been shown under the trade and other payables balance in the financial statements of the Corporation as at the end of the year under review without being taken proper actions to get them recovered early. Furthermore, it was observed that without being taken immediate steps to get those debit balances recovered, the Corporation had made transactions with those parties afterward. Therefore, the accuracy and existence of those balances were doubt in audit.	Out of the 16 debit balances of Rs.137.5 million consist of Rs. 130.9 million receivables from PV Oil which has a legal Case.	Appropriate action should be taken to clear all long outstanding balances.
(c)	According to the age analysis of trade and other payables, 41 venders with the carrying forward balance of Rs. 40,081 million as at the end of the year under review had been remained unsettled for over 05 years, while balances relating to 103 customers amounting to Rs. 11,765.714 million as at the end of the year under review had been remained unsettled for the period ranging from 01 to 05 years. However, Therefore, accuracy and existence of those balances were doubt in audit.	Out of 41 vendors of Rs. 40,081 million, consist of 2 vendors for Director General of Customs. It is in the process of settling the balance amount for National Iranian.	Appropriate actions to be taken to clear all the outstanding balances and maintain proper and updated records.

(d)	The demurrages claimed by the suppliers during the year under review had been increased from Rs. 67 million to Rs. 400 million or over 5 times compared with the previous year. However, the actual amounts of demurrages incurred by the Corporation had not been disclosed clearly in the financial statements for the year under review.	There is a disclosure in the financial statements.	Actual demurrages incurred by the corporation should be clearly disclosed in the financial statements.

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.			
(b)			
(i) Guideline 7.2	Procedure manuals including all major activities for the Lubricant Business and Bunkering Business of the Corporation had not been prepared by the Corporation.	Procedure Manuals are under preparation.	It should be complied with the relevant guideline.
(ii) Guideline 9.3	A Scheme of Recruitments and Promotions which should have been approved by the appropriate Ministry with the concurrence of the Department of Public Enterprise of the General Treasury had not been prepared by the Corporation.	The Scheme of Recruitments and Promotions is in the final stage and due to the recent situation, it was not possible to carry out efficiency. In this regard discussions have been held with the divisional head and to be expected to obtain the approval from Management Service Department.	-Do-.

(iii) Guideline 9.12	Approval from the Department of Public Enterprises of the General Treasury had not been obtained for the welfare scheme of the Corporation. However, a sum of Rs. 26.06 million had been incurred by the Corporation as staff welfare expenses during the year under review.	According to the annual budget of the corporation, the approval of the board of directors will be obtain every year for the budget allocation required for the various functions implemented under the welfare of the corporation and will proceed according to the approval of the board directors.	-Do-.
(c) Finance Circular No. 124 of 24 October 1997 of Ministry of Finance and Planning.	Covering up duties of a vacant post should be limited to a period of 03 months. However, 12 officers, including Grade A posts, had been assigned for cover up duties of vacant posts for more than 03 months	According to the Cadre of the Corporation during the last period there were 1052 vacancies in the corporation. According to the service requirements 12 officers have been assigned for cover up duties.	-Do-.
(d) 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, 9 cheques issued but not presented amounting to Rs. 1.642 million had retained without being reversed.	Most of the cheques are realized now and have voided the Cheques that was not presented after six months. Respective sub functions in the finance sections who raised the payment voucher reverse the payment voucher and relevant user function reverse the liability if those payments are no longer payable.	It should be complied with the relevant F.R

(e)	letter No. TIP/TP/09/06-02/21 dated 30 December 2021 of Secretary to the Treasury.	Accumulated Customs duty payable balance at the end of the year under review amounted to Rs. 11,015.43 million relating to the period from 2011 to 2021 had not been paid in prescribed period in terms of Customs Ordinance.	151 CUSDECs for importation for year 2021 has been submitted to the Customs for finalization in order to settle the balance Taxes and Levies. Out of 96 CUSDECs CPC has settled 13 CUSDECs and the Sri Lanka Customs has to complete the documentation process.	The Corporation should settle entire outstanding balances and comply with the directions of the Treasury.

2 Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.80,564.78 million and the corresponding profit in the preceding year amounted to Rs.4,248.09 million. Therefore, a deterioration amounting to Rs. 84,812.87 million of the financial result was observed. The reasons for the deterioration are the increase in exchange rate variances, finance expenses and administrative expenses by Rs.11, 379.3 million, Rs. 4,731.6 million and Rs. 1,224.4 million respectively.

2.2 Ratio Analysis

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

	Corporation		Group	
Ratio	**2021**	**2020**	**2021**	**2020**
Profitability Ratio				
Gross Profit/ (Loss) Ratio (%)	(0.70)	12.95	(2.01)	11.62
Operating Profit/ (Loss) Ratio (%)	(7.14)	6.49	(6.88)	6.79
Net Profit/ (Loss) Ratio (%)	(14.06)	0.45	(13.87)	0.78
Liquidity Ratio				
Current Ratio (Number of times)	0.47	0.45	0.49	0.47
Quick Ratio (Number of times)	0.42	0.37	0.43	0.38
Investment Ratio				
Return on Capital Employed (ROCE) (%)	(16.26)	(8.74)	(17.11)	(10.47)
Gearing Ratio (Number of times)	1.44	1.44	1.55	1.56

The gross profit/ (loss) ratio, operating profit/ (loss) ratio and net profit/(loss) ratio of the Corporation had decreased by 105 per cent, 210 per cent and 3,218 per cent respectively during the year under review as compared with the previous year.

Return on capital employed had been decreased by 286 per cent during the year under review as compared with the previous year of the Corporation.

3 Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
(a) Ship to Party operations done by the registered dealers The petroleum products are distributed to end customers by the Corporation either directly or through registered dealers. If sales are made through dealers, a dealer commission has to be paid, and if petroleum products are sold directly to the consumer no dealer commission has to be paid. In addition to that, the Corporation had given the authority to some selected dealers to distribute fuel directly to private consumers, which is called as "Ship to Party System (SPS)", subject to a payment of dealer commission since the year 2008. Accordingly, a sum of Rs. 132.453 million had been paid for 5 dealers as commission under SPS system in the year under review. The following observations are made in this regard.		
(i.) In an audit test it was revealed that any handling cost or operational cost or overhead cost had not been borne by the dealers to distribute fuel directly to private consumers under SPS. Therefore, the rationale for implementing the SPS system with additional cost to the Corporation was not clear in the audit.	There is other cost component related to ship to party operations. A cost of transport from terminals to industries to be borne by the respective ship to party operator (dealer).	Transport cost borne by the dealers is not significant. Appropriate actions to be taken by the management as to minimize the cost the Corporation.

(ii.) There were sufficient numbers of bowsers in the bowser fleet of the CPSTL and in the fleet of hired bowsers to distribute fuel to all the private consumers. Therefore, there was no any barrier to private parties, who had registered as SPS customer, to register as a consumer, if that were the case, a large amount of dealer commission could be saved by the Corporation. Therefore, implementing and maintaining a SPS process for such a longer period by the Corporation is questionable.

There is shortage of bowsers at CPSTL. Especially bowsers equipped with power take off (PTO) pumps and Long Hoses for discharging. CPSTL have around 90 bowsers and they have also hired about 500 plus bowsers.

-Do-

(b) Sales Commission to Dealers

According to the Board decision No. 05/1231 dated 30 July 2019, the Board had approved, in principle, a commission rate of 3% on petrol and diesel to DODO dealers and 2.75% to CODO dealers as a temporary measure for each of the following products between the upper and lower limits.

Particulars	Petrol		Diesel	
	92 Octane	95 Octane	LAD	LSD
Upper Cap	Rs.162	Rs.170	Rs.121	Rs.145
Lower Cap	Rs.117	Rs.128	Rs.95.	Rs.110

A fixed commission rate of 2 % was granted for kerosene.

The following observations are made in this regard.

(i.) Even though the Corporation had decided to implement the above mentioned decisions with effect from 15 August 2019, it had been communicated to dealers on 10 March 2022, i.e. delaying in more than 31 months. However, any disciplinary actions had not been taken by the Corporation against the officers who had ignored the responsibility to

The communication of this decision was done well before even taking the board decision informally during the negotiation discussion were taking place between dealer union representative and management of CPC. This was officially communicated verbally by the Chairman and the memo issued to DGM (F) confirms

Prompt communication and implementation of board decision is required.

communicate the Board's decision to the dealers timely.	the communication.	
(ii.) Prompt actions had not been taken by the MD to implement the Board decision, and instead, the Marketing Manager (MM) had been instructed to carry out an analysis on income and expenditure of all dealers from the marketing point of view prior to the implementation of the decision. Even though the overpayment made to the dealers at that time was less than Rs. 100 million, the accumulating overpayment per day was more than Rs. 3 million. Therefore, it was questionable in the audit that the MD had taken such action at his own discretion without implementing the board decision .	Noted.	It should be complied with the relevant board decision.
(iii.) The Petroleum Dealers' Association and four other dealers had filed a case in the Court against the implementation of that Board decision, and the Court had issued an enjoining order to maintain a status-quo. The Colombo District Court had quashed the above injunction on 15 July 2022. Accordingly, necessary changes to the ERP system (SAP) had been made enabling the Corporation to update the new commission rates with effect from 16 July 2022 as there were no any legal impediments to implement that Board Decision. However, according to the information made available, the overpaid dealer commission up to 17 July 2022 amounting to Rs. 4,349.93 million had not been recovered by the Corporation.	Over payment dealer commission up to 16.03.2022 has been accounted. Out of the accounted over paid commission 1/5 of has been recovered.	The overpaid commission should be recovered fully.

(iv.) The Chairman had directed to remove the existing upper and lower CAP base with effect from 25 July 2022 subject to the approval of the Board in the absence of any legal impediment to the Corporation implementing the Board's decision and notwithstanding the financial distress of the Corporation. Accordingly, the dealer commission had been paid continuously, disregarding the Board's decision on the upper and lower limits of the dealer's commission. The following observations are made in this regard.		
(a) Consent of all members of the Board for amendment of the Board decision and the written approval of the Line Minister as per the Petroleum Act No. 28 of 1961 was not made available to audit.	Noted.	Immediate action should be taken to implement the board decision
(b) After removal of upper and lower cap of the dealer commission, the overpayment to dealers as dealer commission from 26 July to 31 August 2022 was amounted to Rs. 1,963.87 million, and accordingly, the total accumulated overpayment of dealer commission as of that date had increased up to Rs. 6,537.96 million.	Noted.	- Do -
(v.) When compared to the amount of Rs. 30.7 million of dealer commission payable per day in line with the Board decision, the actual overpaid amount of dealer commission (even under a controlled supply) on 26 July 2022 was Rs. 67.9 million. Accordingly, estimated impact of dealer commissions due to removal of the upper CAP of dealer commission rate is shown below.	The said calculation has been done based on the expected fuel supply estimated by marketing function and this may be varying based on the actual supply.	- Do -

Particulars ----------------	Per Day ------	Per Month ----------	Per Annum ----------
	Rs. Mn.	Rs. Mn.	Rs. Mn.
Dealer Commissions:			
Payable under prevailing Board decision (With Caps)	30.7	921	11,052
Payments made under the new instruction (Without Caps)	98.6	2,958	35,496
Difference (Increase)	**67.9**	**2,037**	**24,444**
Increase as a % of the prevailing Board decision (with Caps)	**221**	**221**	**221**

The following observations are made in this regard		
(a) As compared with the prevailing Board decision No. 05/1231 dated 30 July 2019, the cost of dealer commissions per day had increased by 221 per cent, and accordingly, the cost of dealer commissions per annum could increase by more than Rs. 24 billion. Accordingly, the increase of dealer commission during the year 2022 would be more than four times of the average of staff costs of the Corporation including the refinery staff for the year.	Noted.	**-Do-**
(b) The details of the total of dealer commission, including the commissions for bitumen, lubricants, Agri-products and commissions for other government customers, paid by the Corporations for last five years are as follows.	Noted.	**Do -**

Year	**Rs. Mn**
2017	10,995
2018	13,541
2019	14,132
2020	12,402
2021	14,486
Predictable Dealer Commission for the next 12 Months	**35,496**

Accordingly, the total of predictable dealer commission for the next 12 months period would be significant and unusual when compared to the average of the previous years. Therefore, when the fuel supply in the country returns to normal, the cost of dealer commission would further increase due to the dealer commission being decided based on the selling price of fuel without controlling the upper limit. Therefore, the selling price of the fuel would further increase due to the dealer commission is also included in the fuel price.

(vi.) The impact of Dealer Commission on Selling Price of Petrol and Diesel

According to Cabinet Decision No. 22/0673/522/002 and dated 23 May 2022, the fuel price mechanism of the Corporation had been used to determine the cost and selling price of petroleum products, and accordingly, the dealer commission had increased. The impact of dealer commission on fuel cost and selling price is as follows.

Noted.

Immediate action should be taken to implement the board decision

Particulars	**Petrol**		**Diesel**	
	92Oct	**95 Oct**	**LAD**	**Oct**
	Rs.	Rs.	Rs.	Rs.
Local Market Price	450	540	430	510
Upper Cap	162	170	121	145

Dealer commission as per Price Formula	13.50	16.20	12.90	15.30
Actual dealer commission to be paid as per the Board decision	4.86	5.10	3.63	4.35
The increase of fuel price due to non-compliance with the Board Decision	8.64	11.10	9.27	10.95

As a result of removal of upper cap of dealer commission, the cost of fuel had increased at least approximately by Rs. 10 per litre. Accordingly, the price of the Petrol Octane 92 and Octane 95 had increased by Rs. 8.64 and by Rs. 11.10 respectively while the price of the Lanka Auto Diesel and Lanka Super Diesel had increased by Rs. 9.27 and by Rs. 10.95 respectively, resulting the general public had to bear additional cost for fuel.

(vii.) Accordingly, it was observed that the decision for removal of the permitted upper and lower cap on dealer commission lacking a proper studying and evaluation on the present and future financial position of the Corporation would negatively impact to the sustainability of the Corporation in the long run.	Noted.	Do

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Corporation had not been entered into any agreement or Memorandum of Understanding (MOU) with the CPSTL and Lanka Indian Oil Company (LIOC) with regard to their individual responsibilities on the involvement of the Enterprise Resource Planning (ERP) System introduced by the CPSTL. Accordingly, it was observed that the ERP system had not been effectively utilized by the Corporation especially for the fuel	AG Opinion on the Draft Agreement has been obtained and confirmation from the CPSTL and LIOC has to be obtained. After obtaining the confirmation it has to be tabled to the SAP Steering Committee.	The Corporation should enter into an agreement without delay with the collaboration of all related parties.

	stock reviewing activities and refinery functions		
(b)	Prompt actions had not been taken by the Corporation to rectify the following observations which iterated in previous audit reports with regard to Common User Facilities		
(i)	The Common User Facility Shareholders Agreement (GOSL/CPC/LIOC) dated 30 December 2003 entered into between the Government of Sri Lanka (GOSL), the Corporation and the LIOC, had expired on 31 December 2008 as per clause 15 of that agreement. Therefore, the common user facilities mentioned in the said agreement including the governance procedures for entities and the pricing formulas used for the purpose of determining the throughput charges and transport expenses (including slab charges) had not been revised with the collaboration of all related parties.	Agreement has been signed between CPC and CPSTL to determine the throughput charge and the transport expenses in 2019. Separate Committees have been appointed to submit the agreed formula. Last revision has been done in April 2019 as per the Committee recommendation.	-do-
(ii)	The Corporation had entered into an Agreement with the CPSTL on 13 May 2019 with regard to storing and transporting of petroleum products, and deciding the basis for throughput charges. Although similar terms and conditions apply, insufficient attention had been paid to LIOC, one of the main parties to the Common User Facility Shareholders Agreement dated 30 December 2003. Therefore, there was a risk that the LIOC might refuse to comply with the terms and condition included in the agreement entered into between the Corporation and CPSTL.	The agreement signed in 2019 is between CPC and CPSTL for the services rendered to CPC by CPSTL. The terms and conditions between CPSTL and LIOC cannot be included to this agreement.	- Do -
(iii)	According to the Common User Facilities Shareholders' Agreement entered into between the Corporation, the LIOC and the GOSL on 30 December 2003 and the	The list of vessels incurred on demurrage relevant to the shipments delivered during the year 2021 due to maintenance of poor infrastructure	Appropriate actions to be taken by the management as minimize the cost

agreement entered into between the Corporation and the CPSTL on 13 May 2019, the CPSTL was responsible for maintaining of the pipelines at an accepted level of standards and for providing storage facilities to maintain stocks sufficient to 02 months fuel requirements. However, as a result of delaying in unloading fuel from vessels due to blockages in the pipelines and inefficient storage facilities, the Corporation itself was liable to pay demurrages.	facilities by CPSTL has given**.** The claims have already forwarded to CPSTL, Kolonnawa for recovery. Still no response received from CPSTL in this regard.	to the Corporation and country as a whole.
(iv) Corporation had paid a sum of Rs. 250 million to Urban Development Authority in relation to rehabilitation of a 12″ diameter and 5,500m long pipeline from Colombo Port to Kolonnawa Oil installation in the year 2019. According to the information made available to audit, the Corporation had not entered into any agreement with the CPSTL, and no any negotiations had with the CPSTL in order to recover the paid amount later.	At the Cabinet Sub-Committee meeting dated 03.07.2019 in the subject of "Providing houses for the squatter families in order to proceed with replacement of fuel transfer pipelines from Colombo port to Kolonnawa Oil Installation" it was decided Ministry of Highways & Road Development and Petroleum Resources Development to direct CPC to bear 50% of the relocation cost considering the financial benefits that could be gained by CPC upon replacement of the said pipelines and the remaining 50% by General Treasury. Based on that commitment given by the Line Ministry, CPC Board of Directors have decided to make the payment of 50% of the actual cost to UDA	Appropriate actions to be taken by the management as minimize the cost to the Corporation
(v) According to the agreements, throughput charges consist of storage terminal cost and profit margin. Storage terminal cost includes personal cost, overhead and maintenance cost and depreciation of the assets of CPSTL. It implies that all the transport charges of CPSTL should be excluded when determine the throughput charges. However, due to lack of sufficient evidence it was unable to ascertain whether	The total maintenance and overhead cost related to CPSTL owned bowser fleet were reimbursed through the throughput charges under terminal charge. But, no any transport payment has been made to CPSTL owned bowsers during the year 2021 in order to avoid any duplication of transport charges to CPSTL.	Appropriate actions to be taken by the management as to remove the duplication of all transport related cost.

	the transport related cost of the CPSTL had been excluded when deciding the storage terminal cost of throughput charges. Therefore, there was a risk of duplication of repayment of transport charges to the CPSTL. According to the information made available, a sum of Rs. 2,501.8 million had been paid as transport charges to CPSTL during the year under review.		
(vi)	According to the Common User Facilities Share Holders' Agreement entered into between the corporation, the LIOC and the GOSL on 30 December 2003, Storage Terminal Cost had been defined as "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". However, after the agreement had expired on 31 December 2008, the Corporation had paid more than Rs. 2,183 million as the interest portion for the period from 2009 to 2016 relating to the bank loans obtained by CPSTL in 2009 from the People's Bank. Accordingly, it was further observed that the payment had been made without having a proper evaluation and obtaining confirmations about the real amount to be paid in terms of the agreement.	Following steps were taken to avoid additional interest payment after analysis of the Common User Facility (CUF) agreement expired on 2009. 1. In year 2018 board approval has been obtained to eliminate loan interest component from throughput charge from 01.01.2018 and write off outstanding of Rs. 3.43 Bn from CPC books of account as per the board minute No. 02/1214 of 11.05.2018 2. Further, DGM (Finance) CPC has informed CPSTL, the necessity of recovery of additional payment of interest amounting Rs. 2.183 Bn from future throughput payments 3. Subsequently, final direction was given by the Secretary to the Ministry of Energy as the chief accounting officer to settle Rs. 637.043 Mn to CPSTL as interest charges. 4. As per the above direction a board paper was submitted to BOD for explaining the situation as CPC has already written off the interest payment from CPC books of account. 5. Finally, considering the above board paper and explanation of	Appropriate actions to be taken by the management as to minimize the cost to the Corporation

	DGM (finance) BOD granted approval to allocate a new budget allocation of Rs. 637.043 Mn to settle the outstanding loan interest of CPSTL.	
(vii) Maintenance of pipelines as per the accepted level of standards and provision of sufficient storage facilities was the main role of the CPSTL, subsidiary company. Accordingly, a considerable amount of funds had been transferred to the CPSTL as throughput charges for the development of infrastructure facilities relating to the storage and terminal facilities for the fuel supply in the country. CPSTL had recognised approximately a sum of Rs. 1,000 million as depreciation for the year under review, and the amount of depreciation for the last 11 years was more than a sum of Rs. 12,000 million. In addition to that, an amount of Rs. 2,983 million had been charged by the CPSTL during the year under review as profit margin, and accordingly, the total amount of the CPSTL had charged for the last 12 years was more than Rs. 46,523 million from both the Corporation and the LIOC. However, there were no sufficient and appropriate evidences to ascertain whether the CPSTL had taken proper actions to develop new infrastructure facilities or to maintain the existing facilities promptly.	Agreed with the content.	Appropriate actions to be taken by the management as to minimize the cost to the Corporation
(c) **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 2021 was Rs. 14,028 million. Moreover, the Commercial Bank had filed a case at the Commercial High	The case between the Commercial Bank and CPC is still pending in court.	Appropriate actions to be taken to settle the matter early.

Court, Colombo against the Corporation by claiming US$ 8,648,300.		
(d) **Selling and Distribution of Fuel Stocks**		
The main business of the CPSTL was storing and distributing of fuel stocks to authorized dealers and consumers in island wide as per the instructions given by the Corporation and the LIOC through 02 main terminals and 11 sub-depots owned by the CPSTL. The following observations are made in this regard.		
(i.) Most of the activities of the fuel distribution process such as obtaining fuel orders from dealers and consumers, verifying the credit limits and related pre-qualifications, issuing invoices, collecting cash from dealers etc. had been handled by the CPSTL. However, those activities had not been assigned to the CPSTL as per the Common User Facilities Share Holder's Agreement (GOSL/CPC/LIOC) dated 30 December 2003 entered into between the Government of Sri Lanka (GOSL), the CPC and LIOC, and those activities should have been performed by the Corporation.	Agree with your observation.	The Corporation should perform its duties.
(ii.) Due to insufficient stocks of petroleum products, priority lists for distribution of petroleum products throughout the island wide dealers and other consumers had been provided daily by the Corporation to the CPSTL. According to the audit examination carried out in this regard during the period from 07 to 18 of June 2022, the following observations are made.		
(a) 2,509 consignments of petroleum products (6,600 litres per consignment) had been distributed despite the priority list of the Corporation, and	Agree with your observation.	The supervision should be made by the Corporation to ensure that the

2,524 consignments of petroleum included in the priority list, had not been distributed by the CPSTL to dealers. However, no any supervision had been carried out by the Corporation in the crisis situation.		distributions are made in proper manner.
(b) In an audit test conducted in June 2022, it was observed that, out of 1,143 dealers registered in Corporation, 120 dealers had not been provided any load of petrol, and 22 dealers had been provided only one load (6600 litres) of petrol per each. Meanwhile, 08 dealers had been provided more than 210,000 litres per each during that month. Lanka Auto Diesel (LAD) had not been distributed for 73 dealers, while 08 dealers had been provided only one load per each. Meanwhile 17 dealers had been provided more than 200,000 litres of LAD per each. Further, 66 dealers had not been provided any white oil product during that period while only one load had been distributed for 06 dealers per each. However, 15 dealers had been provided more than 350,000 litres of white oil per each during that month. However, the Corporation had not taken prompt actions to prevent and correct such issues on time.	Agree with your observation.	Do
(e) **Major Shutdowns and Maintenance of the Refinery (Sapugaskanda)** According to the Board Decision No. 52/1248 dated 15 March 2021, the major refinery shutdowns and maintenance for the year 2021 had been completed within the period from 15 February to 21 March 2021. The total estimated cost for the 35 days shutdown period was Rs. 907.30 million. In addition to the Board decision, provisions for payments and other procedures had been		

	established by the internal circular No. RRM/03/2021 of the Refinery Manager.		
	Following observations are made in this regard.		
(i.)	According to the aforesaid internal Circular, only 82.5 percent of the overtime can be paid as the shutdown allowance, if the shutdown was not able to complete within specified time period. However, even shutdown was delayed for 9 days, 100percent of shutdown allowance had been paid in contrary to the circular. Accordingly, it was observed that an overpayment of Rs. 42.6 million had been made.	Above board decision approved to make 100% overtime payment and in order to speed up the major shutdown works, circular No. R/RM/03/2021 has approved the payment of major shutdown allowance. As the board paper was not approved for major shutdown allowance, the said allowance paid has been recovered since September 2022.	Should be complied with the Circular and taken action to recover the overpayments fully
(ii.)	According to that Circular, Saturday should be considered as a holiday (lieu leave) and other days including public and corporation holidays, paydays and Sundays to be considered as working days during the shutdown period. Accordingly, the maximum 5 lieu leave days are entitled during that period. However, there were instances where lieu leave had been obtained exceeding 5 days, and resulted, an overpayment of Rs. 5.693 million.	All the lieu leave granted during the major shutdown has been granted procedure of granting lieu leave.	Do

(f) **Receivable from Foreign Suppliers**

According to the information made available to audit, the total amount to be collected from foreign suppliers was USD 4,392,675 pertaining to the period from 2012 to 2018. This amount is comprised with an amount of USD 1,476,556 for penalty imposed due to late delivery/ short loading, an amount of USD 178,678 for external losses, an amount of USD 2,630,423 for penalty for unacceptable quality and an amount of USD 107,017 for	CPC has informed the relevant suppliers to remit the funds, but still not settled as they have also have accumulated demurrages which CPC also have to pay for them.	Prompt action to be taken to collect the outstanding balances or settle against payable amounts.

losses incurred due to price differences. However, the Corporation had not taken effective action to collect these amounts or to settle against the payable amounts even by the end of the year under review.		
(g) According to the decision No 12/0295/510/003/TRB of 22 March 2012 taken by the Cabinet of Ministers, the line Ministry should make endeavour to enter into term contract for supply of petroleum products with extended credit facilities, as opposed to the spot buying on weekly basis. However, 28 shipments out of 99 shipments had been entered in the year 2021 on the basis of Spot (Single cargo) contracts in contrary to the above decision.	23 reasons have given for calling single tenders during the year 2021.	The Corporation should comply with the Cabinet decisions.

3.3 Operational Inefficiencies

Audit Issue	**Management Comment**	**Recommendation**
(a) Storage and Distribution of Petroleum Product		
A special audit report on evaluation of existing petroleum storage capacity utilized in the country and appropriateness and productivity of the fuel transport pipeline system including railway and bowser transport system currently in operation in the country, with recommendations for smooth and safe operation of the petroleum storage complex, was tabled in Parliament in 28 August 2020. In that audit it was observed that a proper internal control system for smooth and safe operation of the petroleum storage complex and fuel transport process in the country had not been suitably designed and implemented by the Corporation.	Agreed with the content.	The Corporation should properly evaluate and appropriate actions to be taken on the recommendations of the report. Measures to be taken for the smooth and safe operation of the petroleum storage complex and fuel transport systems in the country.

(b) Trincomalee 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 Trincomalee in 1930. The land with an extent of 358.553 hectares belong to the Tank Farm had been given on lease basis by the Government of Sri Lanka to the Commissioners of the Lord High Admiralty of the British Government for a period of 999 years before gaining independence to Sri Lanka. In 1961 at the request of the Government of Sri Lanka, the Corporation had paid Sterling Pounds 250,000 in three instalments and taken over the possession of Land, Tank Farm, Buildings and other equipment with effect from 01 April 1964. Nevertheless, no legal documents had been obtained up to date from the Government for the above land.

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

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

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

Meanwhile, a CPC subsidiary company, namely Trinco Petroleum Terminal (Pvt) Ltd. was formed on 24.12.2021 for this tank farm under the direction of Minister of Energy for this tank farm development.

It should be paid immediate attention to clear the ownership of farm and initiate petroleum related business using the available resources in the farm.

the abandoned upper section had been started on 29 April 2015, the necessary activities for the development and rehabilitation of the tank complex had not yet been carried out.

Although the Corporation and the LIOC had jointly established Trinco Petroleum Terminal (Pvt) Ltd on 24 December 2021 for the purpose of developing the Trincomalee Oil Tank Complex, a proper action plan to achieve that objective had not yet been prepared by that Company.

(c) Sapugaskanda Oil Refinery

As stated in previous audit reports, the existing Refinery, which had been constructed five decades back (commissioned in 1969), was a basic Refinery, and was not being able to cater the increasing demand of petroleum products in the country. This Refinery was operating with a low margin when compared to refineries operating with advanced technologies including facilities to produce petroleum products at lower cost, and comprising capabilities to upgrade bottom products to high value products such as petrol and diesel, where by maximizing its operating efficiency. However, the CPC was unable to implement the proposed Sapugaskanda Oil Refinery Expansion and Modernization (SOREM) Project or alternative projects to ensure supplying of its products to the market in a cost-effective manner. Further, the land acquired incurring	Since the Refinery Expansion and Modification (SOREM) project had been held up for a considerable period of time (more than 10 years) due to various reasons, it was necessary to revisit the feasibility of the project. As such, a basic preliminary pre-feasibility was done by an in-house team. Thereafter, with the approval of the Cabinet Ministers a comprehensive feasibility study was carried out by M/S KBS Technologies Pte. Ltd. for the purpose of installing a separate new 100,000 bbl/d refinery on BOT basis while carrying out essential modifications to the existing Refinery. It has been identified 100 acres land is required for the project and acquisition of around 23 acres has already been initiated. A cabinet Paper has been prepared by the line Ministry seeking approval to initiate the bidding process.	A greater attention has to be given to upgrade the existing refinery and build a new as to satisfy the country demand at lowest cost.

a cost of Rs. 1,003 million for that purpose had been remained idle even up to date.		
(d) A sum of USD 251 million equivalent to Rs. 32,344 million, had to be paid to the National Iranian Corporation, Tehran in relation to purchase of Petroleum Products by the Corporation in the year 2013. However, this amount could not be paid due to economic sanctions imposed to Iran. That balance had been shown in the financial statements as a payable amount from the inception of the transaction at the exchange rate as of the end of each year, and the difference of the adjustment had been transferred to exchange gain or loss of the respective year, payable balance and accumulated exchange loss (from 2012 to 2021) as at the end of the year under review had increased to Rs. 50,938 million and Rs. 18,594 million respectively. The exchange loss for the year under review was Rs. 3,004 million. It was further observed that any payment on that had not been made due to uncontrollable external factors. However, there were no sufficient and appropriate evidences to ascertain whether the Corporation had taken a prompt effort to settle that amount by alternative forms and to evaluate the financial viability of keeping the balance unsettled in a situation where depreciating of Rupee against US Dollar.	This amount could not be settled due to sanction issues although CPC has taken effort to settle the amount by alternative means.	Appropriate actions to be taken by the Corporation to minimize the related cost and other consequences in this regard.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) Halgaha Kumbura Land at Wanathamulla had been acquired for Rs. 10.6 million for the purpose of LP Gas Project and a Playground. However, it had not been utilized for the intended purpose, and as a result, more than 700 squatters had been constructed in that land.	The fact mentioned therein is correct.	Step to be taken to evict the unauthorized occupants and utilize the property for the betterment of Corporation.
(b) Acording information made available, The Mahahena Land which had acquired by the Corporation for Rs. 0.625 million had not been accounted for. However, that land had been continuously used by the previous owner even after the acquisition in 1986.	Steps are being taken to obtain the vacant procession for the remaining land.	Do

3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) Staff Loans		
(i) Even though a significant loan portfolio had been maintained by the Corporation, no proper source of financing had been established in relation to the management of loan portfolio.	Loans to employees are an employee benefit given to employees over a long period of time and CPC has a financial policy for those loans. When introducing a new loan category or when CPC enhance the loan entitlement limit, Board approval is obtained.	The Corporation should establish proper financial policy for staff loans.
(ii) Adequate study and evaluation of the ability to provide loans and the ability to recover loans with interest had not been done, and no related policy had been established by the Corporation. Further, a loan master file had not	Board approved policies are in place when providing loans to employees. System has the loan master file. Outstanding loan balances of resigned and retired staff remains outstanding in the schedules until they settle those	The Corporation should establish a proper recovery plan for loan scheme.

	been maintained properly, and as a result, there were instances that resigned or retired staff had been included in the outstanding loan balances as unpaid or unrecovered balances. Further, the Corporation had not taken legal actions against the defaulters. Consequently, the defaulted loan balances as at the end of the year under review was Rs. 16.67 million.	loans or until CPC write-off those balances. Corporation takes recovery actions against the defaulters and for some employees legal action has been taken.	
(iii)	The Corporation had to delay or postponed very urgent and important capital improvement works due to lack of sufficient funds as maintaining a large amount of loan portfolio of the staff by the Corporation. However, Corporation had not paid any attention to outsource of the loan scheme to a commercial bank or a finance institution to overcome above issues.	Staff Loan portfolio is 4.273 Mn as at 31 Dec 2021. This is only 1.02% of total asset base. This loan portfolio includes loans given to staff over a long period of time and corporation has established processes to manage the loan portfolio.	The Corporation should take prompt actions to outsource the loan scheme without harm to the employees.
(b)	**Overtime**		
	Out of 2,296 of available cadre of the Corporation, overtime payment of 998 employees had exceeded 50 per cent of their basic salaries. Further, 391 employees or 17 per cent of total employees had exceeded 100 per cent of their basic salaries, including 16 employees who had exceeded their basic salaries by 200 per cent.	From 01 December 2021, Management decided to control overtime by imposing approval limits to overtime hours.	The Corporation should control overtime and establish overtime approval limits.