Special Audit on Procurement of Petroleum Products by the Ceylon Petroleum Corporation during the period from 1 June 2011 to 30 June 2012

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Auditor General's Department

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REFERRAL

It was reported that substandard petroleum products (contaminated/ dirty) had been imported and distributed in several instances by the Ceylon Petroleum Corporation (CPC) and as a result vehicles and machinery had broken down. Further, the Chairman of the Committee on Public Enterprises (COPE) had a directive on me to conduct an audit on that matter relating to the procurement of petroleum products made by the CPC during the period from 01 June 2011 to 30 June 2012. Further, more than 3,000 complaints had been received by the CPC about cases of motor vehicle and machinery breakdowns, as a result of the stock of substandard diesel released to the market.

RATIONALE FOR THE AUDIT

- During the following period newspapers, several other mass media, social groups, politicians, civil society, etc. had disclosed that in several instances a larger number of motor vehicles, machinery, etc. had been severely affected by substandard fuel distributed by the CPC. Accordingly, it was revealed that gantry cranes of the Sri Lanka Ports Authority, buses of the Sri Lanka Transport Board, Locomotives of the Department of Sri Lanka Railways, Motor Vehicles of the Department of Posts, and certain machinery and motor vehicles of private sector organizations and the civil society had been critically affected by the said contaminated petroleum products and the estimated loss of the damage caused to the assets of the said Government institutions is as follows. Therefore, there was a risk of fraud relating to the procurement of petroleum products during said period.

Name of Organization	Items impaired		Cost of replacement
	Category of Items	Quantity	
		Nos.	Rs.
Department of Sri Lanka Railways	Engine fuel filters	252	1,810,407
Sri Lanka Transport Board	Buses	289	650,659
Sri Lanka Ports Authority	Transfer Cranes, Prime Movers, Top Lift Truck, Fork Lifts, Motor Coaches, Mini Buses, Cabs, etc.	57	Not estimated. Replaced by available parts in stocks.
Department of Posts	Vehicles	23	383,370

- The total cost of importation of petroleum products for the year 2011 was Rs. 417 billion and representing approximately a 6.4 percent of the Gross Domestic product (GDP) amounted to Rs. 6,543 billion at current market price for the year under review.

THE CENTRAL ISSUE

- There was the risk of obligation for the payment of compensations to affected parties as a result of distribution of contaminated fuel.

- The reasons for the CPC to allow the poor quality diesel to be taken delivery of and released to the market without considering the possible damage to the goodwill and reputation of the CPC.

- Possibility of the after-effect critically affecting the economy and the development process of the country.

- Loss of faith of the clients/ general public on the quality controls exercised by the CPC handling a major part of the petroleum business in the country.

SCOPE OF THE AUDIT

- Audit on procurements of petroleum products made by the Ceylon Petroleum Corporation during the period from 01 June 2011 to 30 June 2012.

- An audit consists of making inquiries, primarily of persons responsible for financial and operational aspects, and applying analytical and other audit procedures.

- Understanding the entity, its environment and internal control procedures.

- Testing of controls. (Inquiry, Observation, Examination and Re-performance)

- Performing substantive analytical procedures to identify areas to be considered further.

- Testing of details (classes of transactions, account balances, and disclosures) – design and perform substantive procedures for each material class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement.

- Performing audit procedures at selected locations on an unannounced basis – This is particularly relevant when considering the response to the risks of fraud.

- Physical verification.

LIMITATIONS

- Time limitation – Audit was carried out within a limited period of 45 days specified.
- Lack of documentary evidence
- In gathering corroborative information from outside parties, telephone conversations, faxes, etc. had to be used instead of interviews and evidence through the post.

BACKGROUND TO THE AUDIT

The following situations provided a good ground for the audit.

- Mass media had disclosed information relating to the allegation of procurement of certain contaminated petroleum products.
- Understanding the functions and responsibilities of the entity, its environment and internal control policies and procedure relating to the procurement of petroleum products, and identification and assessment of risk of material misstatements due to fraud or error.
- According to the information disclosed by published documents, it was revealed that CPC had imported contaminated petroleum products from specific suppliers without proper bid evaluation.

WORK PERFORMED BY THE AUDIT

The following audit procedures were performed to enable me to issue a report on the audit findings.

- The audit was commenced on 23 August 2012 and concluded on 10 October 2012.
- The following audit areas of procurement were covered to check whether,
    - the bid procedure was competitive,
    - the success criteria had been established before a review of bids,
    - there was an independent review panel,
    - there was a formal timetable for bidding so as to avoid a particular bidder obtaining an unfair advantage,

- supplier due diligence had been undertaken for major suppliers including a review of past performance, reputation, litigation, quality of products, etc.,

- the bid had included the use of agent, and if so, the role of the agent, level of authority and the principal for which the agent was acting, and

- supply of products with different specifications

ABBREVIATIONS

BOC	Bank of Ceylon
CEB	Ceylon Electricity Board
CPC	Ceylon Petroleum Corporation
CPSTL	Ceylon Petroleum Storage Terminal Limited
DES	Delivered Ex- Ship basis
FCA	Fuel Adjustment Charge
GBP	Great Britain Pounds
LAD	Lanka Auto Diesel
Laycan	Period of delivery
LC	Letter of Credit
NPA	National Procurement Agency
Gasoline	Petrol
Gas Oil	Diesel
SSCAPC	Special Standard Cabinet Appointed Procurement Committee
TEC	Technical Evaluation Committee

EEXCUTIVE SUMMARY

The Ceylon Petroleum Corporation (CPC) was set up as a State Enterprise by Ceylon Petroleum Corporation Act, No. 28 of 1961 in Parliament and further amendments were carried out subsequently. The vision of the CPC is to be the premier customer driven, environmental friendly, enterprise in the petroleum and related industries in the region while contributing towards the prosperity of the Nation.

Main objectives of the CPC are:

(a) To carry on business as an importer, exporter, seller, supplier and distributor of Petroleum products;

(b) To carry on business of exploring for the exploiting, and refining of petroleum and to carry on any such business as may be incidental or conducive to attainment of the objectives.

According to the Central Bank Annual Report for the year 2012, the following Major Economic Policy Changes had occurred during the first quarter of the year 2012.

Date	Changes and measures
12 February 2012	The retail prices of petroleum products were increased as follows: - Petrol by Rs. 12 to Rs.149 per litre - Diesel by Rs. 31 to Rs.115 per litre - Kerosene by Rs. 35 to Rs.106 per litre
14 February 2012	Passenger bus fares were increased by an average of 20 per cent.
16 February 2012	A Fuel Adjustment Charge (FAC) was imposed on the monthly electricity bill at the following rates:

Sector	FAC (Percentage)
Domestic Consumers:	
- 0-30 (units/month)	25
- 31-60 (units/month)	35
- above 60 (units/month)	40
Industries	15
Hotels	15
General Purpose	25

The purpose of this audit is to submit a report to the Parliament on procurements of petroleum products made by the Ceylon Petroleum Corporation during the period from 01 June 2011 to 30 June 2012. Accordingly, it was observed that the CPC had incurred an estimated loss of Rs. 8.3 billion during the short periods of 13 month under review due to inefficiencies such as lack of a comprehensive procurement plan, weakness in the procurement procedure, failure to carry out reliable laboratory tests on time, lack of coherence communication and preparedness to meet the challenge of a volatile markets, overpayments, delays in planning orders for procurements of petroleum products, uneconomical blending of high and low octane petrol, etc. Such issues had created a negative impact on the reputation of the CPC as well as the economy of the country.

Paragraph Number	Description	Value			
		GBP	US$	Ex. rate *	Rs.
2(f)	Registration of suppliers without charging registration fees	-	7,200.00	130.0000 [2]	936,000
2(l)(ii)	Arbitration claimes and leagal cost	-	750,246.83	127.1608 [1]	95,401,987
	- do -	6,590	-	205.4728 [1]	1,354,066
5 (vi)	Loss incurred by the CPC as a result of allowing the supplier (A Singapore based oil Company) to use "Platts" prices for any five days in B/L month	-	9,082,489.00	114.2599 [2]	1,037,764,163
11	Loss incurred by the CPC due to deducting outurn quntity losses from invoce value of supplier	-	-	-	26,535,673
12(a)	Demurrage claimed by suppliers due to operational inefficiencies and terminal constraints of CPC	-	1,522,261.02	127.1608 [1]	193,571,929
12(b)(ii)	Demurrage claimed by other ships which had arrrived on time but unable to discharge due to delays in discharging CPC cargoes	-	233,577.30	127.1608 [1]	29,701,876
12(c)	Demurrage payable due to delays in opening of Letters of Credit	-	31,366.67	127.1608 [1]	3,988,611
13(a)(xii)	Payment for procurement of contaminated Gasoline (92 Octane)	-	20,293,127.00	114.8172 [2]	2,330, 000,000
13(a)(xiii)	Payment made for damaged vehicles due to usage of contaminated fuel released to the market by the CPC	-	-	-	28,000,000

13(b)(iv)	Loss incurred by the CPC due to delays in signing agreement with the selected supplier to import of Fuel Oil, and as a result procurements made from other suppliers on urgent basis at higher premium to avoid power cuts.	-	2,516,500.00	127.1608 [1]	320,000,153
13(b)(vii)	Loss incurred by the CPC as a result of changing of quantity basis air to Vacuum basis	-	54,147.51	127.1608 [1]	6,885,441
13(b)(viii)	Loss incurred by the CPC due to overpayment of fixed premium by including **twice** in the price.	-	2,060,842.00	127.1608 [1]	262,058,317
13(c) (i)	Loss incurred by the CPC due to delays in making a decision for issuing low sulphur fuel oil	-	-	-	37,224,000
13(c)(ii)	Loss incurred by the CPC due to sale of Auto Diesel instead of Low Sulphur Fuel Oil	-	-	-	2,728,492,800
13(d)(iii)	Loss on under-estimation of six months fuel requirment and as a result procurement from othe suppliers	-	1,515,968.00	127.1608 [1]	192,771,704
13(d)(iv)	Loss incurred by the CPC due to non-complience with the Cabinet decision to import petrol under term contracts and importing petrol on spot bid basis in which bid premium was much higher than the previous couple of months' average premium.		2,422,571.00	127.1608 [1]	308,056,066
13(e)(ii)	CPC had incured an estimated loss as a result of the cancellation of the first offer and refloating the bid.	-	43,213.33	127.1608 [1]	5,495,042
13(f)(iii)	CPC had incurred an estimated loss due to changing the basis for calculating DES Colombo price for Gas Oil in favour of the seller and the option of selection of the month (either B/L or delivery month) was up to the seller.	-	5,499,781.67	127.1608 [1]	699,356,637
Total					**8,307,594,465**

* Exchange rates:

__1.__ Exchange rates according to the Central Bank Reports as at 31 December 2012(Daily Indicative Rates of World Currencies – 31.12.2012)

***Country** UK*	***Currency***	***Indicative Rate (Rs.)***
	Pound	*205.4728*
USA	*Dollar*	*127.1608*

__2.__ Actual rates

ISSUES

1. Procurement Plan

According to the Section 4.2 of the NPA Guidelines and the National Budget Circular No. 128 of 24 March 2006, a proper Procurement Plan need to be prepared and approved by the CPC annually. Further, according to the direction given by the Cabinet of Ministers on 11 January 2012, a Procurement plan for the period from Mach to December 2012 had been prepared and submitted for the approval of the Cabinet of Ministers on 12 September 2012. According to the Cabinet decision taken on 03 October 2012, the Cabinet of Ministers had observed that such Procurement Plan had not been prepared in keeping with the accepted norms and standards laid down in the Procurement Guidelines. Accordingly, it was decided that the Secretary of the Ministry of Petroleum Industries, in consultation with the relevant authorities, should prepare the Procurement Plan of the CPC for the year 2013 and submit to the Cabinet of Ministers prior to the commencement of the year 2013. However, such Procurement Plan had not been prepared as yet.

2. Registration of Suppliers

(a) CPC had used a Brochure (Registration of Bidders) which contained Ceypetco standards, terms and conditions relating to registration of suppliers for the procurement of petroleum products. Even though the said brochure had been used since 01 March 1987, evidence was not made available to audit regarding the Board approval for that Brochure. Also, terms and conditions of the Brochure had been amended in several instances but, Board approval had not been obtained for such amendments.

(b) Agreements entered into with suppliers for the procurement of petroleum products are based on the terms and conditions contained in the Brochure. However, proper action had not been taken by the CPC to amend those terms and conditions in terms of the changing requirements of the business environment in consultation with the knowledgeable experts.

(c) The Board had not taken action to review the procurement process regularly and as a result due attention for the changes required to the terms and conditions of the Brochure had not been paid.

(d) Even though suppliers for petroleum products should be registered through publication of notices internationally, notice for registration of suppliers had been published only in Daily News newspaper which is a local publication. Action had not been taken to publish it in the website of the CPC since 2009 up to March 2013. "*As per the Secretary to the Ministry of Petroleum Industries, tender notices are now being published with effect from April 2013 in the website.*"

(e) Applications received had not been entered in a register and submitted to the TEC, in matters of the Procurement guidelines and instead, only the completed applications had been submitted to the TEC. Accordingly, it was observed that the decisions for rejection of incomplete applications were taken by the Commercial Manager.

(f) Even though suppliers are registered after the payment of registration fee, 25 suppliers had been registered without charging the registration fee which amounted to Rs. 936,000 ($ 7,200) (approximately) up to 31 August 2012.

(g) Applications for registration of new suppliers had been called twice (February and August – according to the Brochure) per annum, but the proper procedure as specified in the instructions of the Brochure had not been followed. According to the notice for registration for suppliers published in the Daily News of 17 November 2011 (last notice for application for suppliers), the closing date had been 15 December 2011. Accordingly, only 13 applications had been issued up to that date and only 4 suppliers had submitted their applications. However, further 17 applications had been issued up to 30 June 2012, and out of those (issued after the closing date) only 3 suppliers had submitted their applications for the registration. However, 23 applications had been submitted by suppliers for registration during that period and accordingly, it was observed that 16 applications, which were not issued by the CPC, had been accepted by the CPC without obtaining the document charges of Rs. 5,000 per document. Further, no proper procedure was followed to issue applications for registration of suppliers and as such, applications had been issued without recording the details of suppliers in a register. Thus, it was observed that there was no supervision or control over the registration of suppliers.

(h) Even though, Clauses 4 and 5 of the Brochure required the submission of the latest audited financial statement and actual documentary proof of transactions during the last three years of the supplier with the application for registration to the Commercial Manager of the CPC, such procedure had not been followed in the registration of suppliers for the year 2012.

(i) In the renewal of the registration of existing suppliers for the year 2012, technical capability and experience, financial capability and human resource capability had not been evaluated in terms of the NPA Circular No. 11 of 18 October 2002. For instance, out of 72 registered suppliers, 55 suppliers had not offered even a single bid in response to 63 bids invited during the year 2011. According to the Secretary to the Ministry of Petroleum Industries, the low response to tender invitations by majority of registered suppliers could be due to the smaller volumes, financial restrictions (180 days credit) and other tender terms and conditions of CPC which may not be attractive to the bidder. Measures have now been taken to remove the suppliers from the list of registration of suppliers who do not respond over the period of last two years to CPC tender invitations. Accordingly, list of suppliers will be rationalized."

(j) Bids for the procurement of petroleum products had been invited during the year 2012 from 17 suppliers whose registration had not been renewed for the year 2012. Also, bids for the procurement of Bitumen had been invited during the year 2012 from the 8 suppliers whose registration had not been renewed for the year 2012.

(k) According to the Letter No. PFD/PMD/SEAPC/GEN/001 dated 11 February 2011, of the Department of Public Finance, procurement activities including the appointment of Technical Evaluation Committee (TEC) should have been carried out in line with Government Procurement Guidelines. However, the CPC had not taken necessary action to streamline the system by following such Procurement Guidelines as listed below.

The following requirements stipulated in the NPA Circular No. 11 of 18 October 2006 had not been fulfilled by the CPC.

(i) Development of the assessment framework including criteria and procedure for each year of registration and renewal of suppliers for the procurement of petroleum products.

(ii) Preparation of registration applications for suppliers to respond for the renewal of suppliers.

(iii) Adequate publicity for calling for registration of suppliers – e.g. Advertisement on calling for registration of suppliers had been published only in a national newspaper. Accordingly, it was observed that adequate publicity for registration of suppliers had not been given through appropriate media such as procurement entity's website.

(iv) With regard to the updating of list of registered suppliers, any supplier who had not responded twice for an invitation to submit a quotation or performed unsatisfactorily should be removed from the list of registered suppliers.

(l) Registration of bidders for affreightment of crude oil.

(i) Twenty Three Crude Oil tanker freight suppliers had been registered for the year 2012 and out of which 9 freight suppliers had not paid annual registration fees.

(ii) CPC had entered into an agreement with a foreign ship broker. (A suitable Oil Tanker can be selected at tanker owner's option) to load Iranian Light Crude Oil from Kharg Island, Iran to Colombo for the period from September 2009 to August 2010 and subsequently, it had been extended twice up to 31 December 2010. Further, a suitable oil tanker had been nominated to the supplier for loading 135,000 metric tons of Iranian light Crude Oil from Kharg Island, Iran during 30 -31 December 2010 and voyage instructions had been given the ship broker on 16 December 2010 for loading and discharging the cargo at Colombo around 08-09 January 2011. However, at the SSCAPC meeting held on 24 December 2010 it had decided to cancel the voyage instructions given to the ship broker. Accordingly, CPC had sent cancellation notice for the owner and the supplier. As a result the owners have referred the issue for arbitration in claiming US$ 790,100.83 from CPC. The CPC has received the Arbitration Tribunal final award on 3 November 2011 awarding US$ 750,246.83 together with interest, the cost of a sum GBP 6,590 and the owner's legal cost. The following observations are made in that regard.

- According to the letters No. CH/115/2011 dated 05 April 2011 and dated 19 December 2011 of the Chairman of the CPC it was noted that the Secretary of the Ministry of Petroleum Industries had directed to the Chairman of the CPC not to proceed to appoint an arbitrator and allowed the case to go by default and allow an ex parte inquiry without CPC participation.

- According to letter dated 11 January 2011 of the Attorney General, addressing to Chief Legal Officer of the CPC that voyage instruction given within the period stipulated in the contract of affreightment has been extended. There was existed a valid contract of affreightment with the owners of the oil tanker and any breach of this contract is litigation. The

Attorney General's opinion was *CPC should either take steps to have the cargo loaded on board the oil tanker or a mutually acceptable affreightment compromised be reached with the ship owners of the oil tanker and advised that clear instruction are given in the case of future contract of affreightment and to do an assessment of the contractual obligation of the CPC in respect of its subsisting contracts of affreightment, and* also given instruction to the Secretary of Ministry of Petroleum Industry to put in place a mutually satisfactory arrangement to ensure neither party suffers any prejudice.

(m) Local Agents of Suppliers

(i) No proper procedure had been established to identify the requirement of local agents when registering of suppliers.

(ii) There were several instances where one local agent had represented more than one supplier using different names as well as using the same names. Accordingly, it was observed that appropriate attention had not been paid when preparing bid documents by the CPC to restrict opportunities for local agents to get involved in pricing decisions on behalf of principals (suppliers).

3. Inviting Quotations

The following observations are made.

(a) According to Section 6.3.1 of the Government Procurement Guidelines, bids should have been received only at one location by mail under registered post, personal delivery or depositing in the sealed tender box and all bids must have been submitted only under sealed cover. But, such control had not been followed by the CPC. Further, the followings observations were made.

(i) Bids had been invited and submitted/received through faxes. Also, it was revealed that the CPC had recently stopped the invitation and submission/ receipts of bids through faxes, without the Board approval and as a result some of registered suppliers who did not have local agents were in differences to submit their offers for bids.

(ii) Instances of depositing of offers for bids in the sealed tender box either by suppliers or the agents of suppliers were observed. For instance, the audit test conducted on 20 November 2012 at 14:55 hour, revealed that a bid document (relating to the tender number BK/77/2012), which had earlier been received through courier service and opened by the Commercial Manager of the CPC, was dropped into the tender box by an employee of the CPC.

(iii) Further, instances of non-depositing of offers for bids in the sealed tender box were observed at an audit test. Accordingly, it was observed that an offer for a bid received on 31 December 2012 (relating to the bid number BK/05/2013) for import of Gas Oil and Gasoline had not been dropped in the sealed tender box and instead it had been opened and retained by the Commercial Manager of the CPC, and not even submitted to the Bid Evaluation Committee. Accordingly, such offer for bid had not been considered in evaluating tenders.

(iv) Opportunities for unauthorized removal of or changes to bids offered by suppliers cannot be ruled out in audit.

(b) A register to record the details of invitation to bids had not been maintained and minimum required information of faxes sent and received relating to inviting to and offering for bids had not been correctly recorded in the Fax Journal (Fax Transmission Report) maintained by the CPC.

(c) Fax machines with facilities to obtain minimum required information of faxes received and sent by the CPC relating to the procurement of petroleum products had not been maintained. However, it was revealed that most of the fax machines maintained by the CPC were outdated. *"According to the Secretary to the Ministry of Petroleum Industries, receiving bids through faxes are completely stopped with effect from13 September 2012 (BK/61/2012)"*.

(d) Procurement process of petroleum products, particularly invitation of bids and offers received through faxes, personal delivery or depositing in the sealed tender boxes had not been properly supervised by a senior officer.

(e) In many occasions, a large number of bid openings had taken place within a day and as a result, fax line congestions had always arisen due to continuous usage of such fax lines by suppliers within a short period of time. Accordingly, many suppliers were unable to send their bids in time and some of them had informed their inconvenience in this regard. For instance, on 04 December 2012 at 15:00, 15:15 and 15:30 hours, three (3) bids had been opened and awarded bids with bulk numbers of BK/38/2012, BK/39/2012 and BK/41/2012 respectively.

(f) According to the decision taken by the SSCAPC at its meeting held on 01 December 2011, a meeting to discuss the unsatisfactory response to offer for bids by registered suppliers, had been scheduled to be held on 07 December 2011. However, it had been postponed five times and later held on 14 December at 13:30 hours. It was revealed that minimum number of suppliers had attended that meeting due to lack of proper communication.

(g) Telephone lines of the Sri Lanka Telecom Ltd (SLT) had been used by the CPC for communication purposes over a long period of time and a few years prior to 2010 telephone lines of both SLT and private local telecom company had been used by the CPC. However, once the CPC was shifted to new building in Colombo 9, the telecommunication service had totally been transferred from Sri Lanka Telecom Ltd (SLT) to said private local telecom company with effect from 17 September 2010 in terms of the agreement entered into between the CPC and private local telecom company. Reasons for such changes were not made available to audit. Further, the following irregularities, with regard to the establishment and usage of new telephone lines were observed in an audit test.

(i) The then Chairman of the CPC was a Director of the said private local telecom company and he had the controlling power of both parties. Accordingly, it was observed that transfer of telecommunication lines of the CPC from SLT to private local telecom company was a related party transaction able to the Chairman of CPC being in the Boards of CPC and the said private local telecom company

(ii) According to the agreement entered into between the CPC and the said private local telecom company, CPC was not allowed to use telephone lines other than Lanka Bell lines.

(iii) There were interruptions and delays in delivering messages through those lines and as such, sending and receiving of faxes were usually very difficult as the telephone lines were always very busy.

(iv) In some instances uncompleted and unclear documents had been sent.

(v) Even though there were many requests to change the existing telephone lines supplied by the said private local telecom company into earlier SLT lines due to congestions experienced during last period, action had not been taken to rectify that situation.

4. Unsatisfactory Response for Bid Invitations

Even though, 73 suppliers had been registered for procurement of petroleum products for the years 2011 and 2012, only a few suppliers had offered or responded for the bids invited during the above periods. Details are as follows.

Description	year	
	2012	**2011**
Number. of registered suppliers to whom bid invitations were sent	73	73
Total instances (occasions) of bulk importation occurred during the year	56	63
Instances of bulk importation - through floated (spot) Bids	40	37
Instances of bulk importation - through term contracts	16	21
Instances of cancellation of bids invited by the CPC	-	05
Number. of suppliers submitted offers for bids	14	10
Number. of suppliers to whom Bids were awarded during the year	7*	5*

*Analysis of a number of suppliers to whom bids were awarded for the procurement of petroleum products through floated bids during the years of 2011 and 2012 (up to 31 October 2102) is as follows.

Number of suppliers submitted offers for bids	Instances of offers received for bids and contracts awarded during the year		Instances of offers received as a percentage of total offers received during the year	
	2012	2011	2012	2011
Number	Instances	Instances	Percentage	Percentage
1	12	9	30	25
2	8	8	20	22
3	4	14	10	37
4	6	3	15	8
5	4	3	10	8
6	5	-	12.5	-
7	1	-	2.5	-
Maximum	40	37	100	100

The following observations are made in this regard.

(a) Invitation of bids had been cancelled in five instances.

(b) Out of bulk importation of petroleum products through floated (spot) Bids in 37 and 40 instances during the years of 2011 and 2012 (up to 31 October 2012) respectively, Bids had been awarded only to five and seven suppliers during the said years respectively. Further, the following observations are made in this regard.

   (i) There were nine and twelve occasions in which only one supplier had offered for bids and contracts had been awarded to them during the years of 2011 and 2012 respectively.

   (ii) Further, there were eight instances in which only two suppliers had offered for bids during the years of 2011 and 2012.

"According to the Secretary to the Ministry of Petroleum Industries, "according to CPC experience the following are the reasons for lack of interest of suppliers to participate in CPC tenders which could also be categorized as country specific reasons and reasons of international commercial nature.

Country Specific Reasons:

- Comparatively small parcel size of cargos
- Limitations on ship specifications
- Limitations in storage facilities

Commercial Reasons:

- CPC Bids Terms and conditions (eg: Arbitration in Sri Lanka)
- Long term credits (eg: 180 days)

5. Supplier Selection Procedure (including specification) and awarding Contracts

The following observations were made at the test checks conducted on supplier selection procedure and awarding contracts to supply petroleum products on the basis of term contract during the period under review.

(a) Procurement of 240,000 Metric Tons (1,800,000 barrels) plus/minus 10 percent of Gas Oil (0.25 percent Max Sulphur) for a period of three months.

CPC had invited offers for the procurement of 240,000 Metric Tons (1,800,000 Barrels) plus/minus 10 percent of Gas Oil (0.25 percent Max Sulphur) on DES Colombo Basis Incoterms 2000, for a period of three months commencing from 01 October 2011. Accordingly, CPC had entered into a term agreement with a Singapore based oil Company on 04 October 2011 for a period of three months commencing from 01 November 2011. The following observations are made in this regard.

(i) The Special Standing Cabinet Appointed Procurement Committee (SSCAPC) had approved to award the above contract to a Korean oil company for DES Colombo price with interest amounting to US$ 131.553 per Barrel. Meanwhile, an Emirates Oil Company Based in Singapore (EOCBS) had also requested on 06 September 2011 for an extension of existing Gas Oil contract between CPC and the said EOCBS for a period of another three months to supply the above mentioned quantity of Gas Oil subject to same terms and conditions specifically at a DES Colombo price with an interest of US$ 131.016 per Barrel. In addition, the above mentioned Singapore based oil Company had re-confirmed on 23 September 2011 that their agreement to supply such product at the DES Colombo price with an interest of US$ 131.023 per Barrel in line with the price list submitted to the Cabinet Sub-Committee on Power and Energy on 31 August 2011. Despite the lowest price offered by the said EOCBS, the bid had been awarded to the above mentioned Singapore based oil Company at a higher price (US$ 131.023 per Barrel).

(ii) Further, the said EOCBS had informed on 29 September 2011 that it was able to supply the said product at the DES Colombo price with interest of US$ 130.935 per Barrel and it was the minimum price offered for the product. However, without considering such offer, SSCAPC had granted the approval on the same date to purchase the said product from the above mentioned Singapore based oil Company. *"According to the Secretary to the Ministry of Petroleum Industries," the said EOCBS had submitted an offer on 29 September 2011 at an estimated price of US Dollars 130.935 per bbl DES Colombo with interest, after the tender opening on 09 September 2011. Therefore, even though they were the lowest, their offer could not be considered due to the fact that once a tender was opened the price could be negotiated only with the lowest successful bidder."* However, the comment of the Secretary to the Ministry of Petroleum Industries could not be accepted as the offer from the above mentioned Singapore based oil Company also had been forwarded to the CPC as a detailed proposal to work with the country on government to government basis for supplying refined petroleum products. Accordingly, it was revealed that the offer submitted by the above mentioned Singapore based oil Company was not a response for the particular bid invitation for the procurement of above mentioned product and SSCAPC had not considered the above fact and granted the approval to purchase the said product from the above mentioned Singapore based oil Company.

(iii) Moreover, the Cabinet Sub-committee had decided, at the meeting held on 30 September 2011, to enter into a term contract with the supplier (the above mentioned Singapore based oil Company) based on the above mentioned general conditions such as an agreement to be entered into with EOCBS (five days around the B/L date).

(iv) According to the pricing policy of term contracts of CPC, price offered for Gas Oil (0.25 percent Max Sulphur) in USD per barrel on DES Colombo Basis (Incoterms 2000) should be the average of the mean Singapore spot price of Gas Oil (0.25 percent S) published in Platt Market Scan on the date of B/L (Bill of Lading), two days before and two days after the date of B/L, plus a fixed premium/discount for the first 30 days interest free credit period plus interest rate for the extended credit period from 30 days to 180 days based on a margin over six months LIBOR, which would be the rate existing on the B/L date. However, the price offered by the above mentioned Singapore based oil Company was five days around the B/L date or any other five days declared by the seller.

(v) In addition, the Commercial Manager of the CPC had by his letter dated 07 October 2011 addressed to the Chairmen of the Cabinet Sub-Committee expressed that the CPC could not agree with Clause 8 of the Agreement with the supplier (the above mentioned Singapore based oil Company) to use “Platts” prices for any five days in B/L month declarable by the seller to his advantage, in place of CPC specified 5 days “Platts” prices around B/L date. He had further explained that CPC had bad experiences in the past suppliers had manipulated the dates for pricing for their advantage. He had requested the approval of the Cabinet Sub-Committee to sign an agreement in the same format which was entered into with the supplier “EOCBS”, incorporating all the operationally sensitive conditions.

The followings observations are made;

- The seller had been granted an opportunity to decide the price on seller’s point of view to ensure a higher profit to the seller.

- According to the recommendation made by the TEC on 15 September 2011, the SSCAPC was advised not to accept that offer as the said condition was unfavourable to the CPC.

- Legal advice had not been taken for such amendments.

- Changes had been made by the Commercial Department without obtaining requisite approval (SSCAPC) for such changes.

(vi) However, without considering any disadvantage made known to the management of the CPC, an agreement had been signed by the Chairman of the CPC with Clause 8 of the Agreement with the supplier (the above mentioned Singapore based oil Company) to use "Platts" prices for any five days in B/L month declarable by the seller. Accordingly, the CPC had incurred an estimated loss of US$ 9,082,489 equalent to Rs. 1,037,764,163 as compared with the general conditions of the CPC agreements. ***(Annexure 1)***

6. Lab testing of Petroleum Products

CPC had appointed independent inspectors for determination of quality and quantity of petroleum products (cargo) imported at loading port and at discharging port. According to the audit test carried out in this regard the following observations are made.

(a) Registration of Independent Inspectors.

(i) Procedure for registration of independent inspectors had been initiated on 02 May 2008 in accordance with the decision taken by the Departmental Procurement Committee at the meeting held on the same date but there was no evidence that such procedure had been followed prior to the year 2008.

(ii) In response to the advertisement published only in Daily News newspaper on 5 November 2007, eight (8) applications for the registration of Independent Inspectors/ Surveyors for Crude Oil and petroleum products had been received and out of 6 applicants had been registered as independent inspectors.

The followings observations are made;

- The Registered List of Independent Inspectors/ Surveyors had not been updated at least once a year in accordance with the amended Section 3.4.3. of the NPA Guidelines (NPA Circular No.(11) of 18 October 2006).

- Equal opportunities had not been provided to all registered Independent Inspectors/Surveyors when appointing them for determination of quality and quantity of cargos.

"According to the Secretary to the Ministry of Petroleum Industries, there were instances where the independent inspector appointed by CPC was not acceptable to the supplier/ loading terminal. In such situations CPC was compelled to accept the independent inspector nominated by the supplier/ loading terminal in order to avoid delays in loading the vessel."

(iii) CPC had not entered into an agreement with the registered independent inspectors to ensure a legal binding relating to the services rendered by them.

(iv) Independent inspectors had not carried out lab testing at the discharge port (Colombo Port). Instead they were expected to witness the testing carried out at the CPSTL laboratory facility. Accordingly, their responsibility was solely to ensure that the analysis had been conducted on standard methods in accordance with industry practice and they were not responsible for apparatus, instrumentation or measuring devices, working calibre of employees of the CPSTL Laboratory or working order. Therefore, the independent inspectors' reports solely depended on the testing conducted by the CPSTL laboratory.

(b) In the appointment letter of the Independent Inspectors for the determination of quality and quantity of each cargo, it had been clearly stated that it was extremely important to submit the tank cleanliness and dry certificate to CPC prior to commencement of loading and to notify the quality of products to the Commercial Manager of the CPC before commencement of loading via fax. However, the followings observations are made;

(i) In several instances such certificates had been submitted to the Commercial Manager of the CPC few days after the date of loading. Details are in ***Annexure 2***.

(ii) Evidence relating to such directives given by the Commercial Manager to the suppliers to commence the loading, were not made available to audit.

(c) According to the appointment letter of Independent Inspectors, it should be arranged to take one gallon sealed sample each from the cargo to be loaded by vessel ex. shore tank, ex. ship tank, ex. shore pipe line, ex. ship manifold to be forwarded to discharge port via Master in Exchange. However, no evidence was made available to confirm that such samples had been received at the discharge port.

(d) Audit test checks revealed the following deficiencies with regard to the Lab testing, carried out at the CPSTL Laboratory.

(i) Sealed samples for lab testing had not been obtained. Instead, unsealed containers had been used to collect samples from the vessel.

(ii) Records relating to the Independence Inspectors' attendance to witness the lab testing conducted at the CPSTL laboratory had not been maintained at the CPSTL laboratory.

(iii) According to the lab testing reports made available to audit, there was no evidence that Independent Inspectors had witnessed such testing by certifying the lab testing report of the CPSTL.

(e) The Independent Inspectors' reports had been submitted after a lapse of long period since the date of discharging the cargo. Therefore, it was observed that Independent Inspectors' report had not been used as an effective instrument of control for the detection and prevention of defects of imported petroleum products. Details are in ***Annexure 3***. *"According to the Secretary to the Ministry of Petroleum Industries, "discharging the cargo was purely based on the interim report which confirmed that quality of the product conformed to required specifications. Therefore, what matters was the interim report but not the final certificates issued after a lapse of long period."*

(f) It was revealed that the most of apparatus, instrumentation or measuring devices used in the CPSTL laboratory were very old and as such those could not be properly operated. Therefore, certain tests could not be carried out. (e.g. FAME testing) Also, an appropriate procedure had not been followed for the restoration of impaired equipment. Therefore, without carrying out certain tests, discharge port reports had been prepared based on the quality certificate prepared at the loading port. Details are in ***Annexure 4***.

(g) Laboratory testing reports prepared by the CPSTL had not been copied to the CPC. Usually, the Independent Inspectors' quality reports received by the CPC had not been referred to the CPSTL and due to lack of such coordination, the management of the CPSTL used to collect such reports from the vessel or the supplier directly.

(h) Lack of lab Facilities to test certain Parameters

According to the audit test carried out on 03 October 2012 it was revealed that certain properties had not been tested due to lack of necessary equipment at the CPSTL or Refinery laboratory of the CPC.

Property/ Test	Test Method	Product	Specification
Motor Octane Number (MON)	IP 237/ ASTM D 2700	Gasoline 92 Octane	Minimum 82
Motor Octane Number (MON)	IP 237/ ASTM D 2700	Gasoline 95 Octane	Minimum 85

Due to unavailability of above mentioned lab facilities, the CPC had depended on the lab testing reports obtained by the independent inspectors at the loading port.

(i) According to the information made available, CPC had been a member of the American Society for Testing and Materials (ASTM) up to 1996. The membership of ASTM had not been renewed since the inception of the CPSTL and therefore, the CPC and CPSTL was unable to obtain the assistance from the ASTM, specifically laboratory services in the following areas.

(i) Accepted standards used by international organizations

(ii) New and improved testing methods

(iii) New pronouncements of sector developments

(iv) Entering into the Inter laboratory Crosscheck Program to enable CPC to check the current condition of the laboratory

(v) Consultancy on lab testing

(vi) Updated information of the ASTM

(vii) Upgraded technical knowledge of the laboratory systems.

“According to the Secretary to the Ministry of Petroleum Industries, “CPC had obtained the membership at ASTM with effect from 2013.”

7. Stock Level Maintenance

Stock Review Committee consisted of members from the CPC, Ceylon Petroleum Storage Terminal Limited (CPSTL), JCT Oil Bank and Lanka Indian Oil Company, members of Ceylon Electricity Board and an officer from the line Ministry and its meetings had been held in every week. The following observations are made in this regard.

(a) The CPC had not maintained records relating to the stock levels, i.e. re-order level, maximum level, minimum level, re-order quantity etc. and further an adequate buffer stock in each petroleum products had not been maintained.

(b) The order quantity of petroleum products was decided solely based on the stock quantity maintenance report submitted by the Operational Manager of the CPSTL and no documents what so ever regarding the maintenance of stocks of petroleum products had been submitted to the above committee for review purposes. Accordingly, it was observed that the responsibility of the CPC to establish and maintain appropriate controls over the stock levels to enable the CPC to provide required petroleum products in time had not been properly accomplished. Instead, the CPC had used to import petroleum products based on the information provided by the CPSTL.

(c) According to the stock review meeting minute dated 28 June 2011, Secretary to the Ministry of Petroleum Industries had instructed to issue 3,300 Mt of Gas Oil to CEB on 18 July 2011. However, lack of sufficient stocks to fulfill such requirement, Additional Secretary (Planning and Development) on behalf of the Secretary to the Ministry of Petroleum Industries had instructed to purchase an additional 40,000 Mt of Gas Oil from the open market to meet the fuel requirement of CEB by his letter No. PRD/3/2/4/2/10 dated 7 July 2011. However, CPC had not called for bids and had purchased 68,411 barrels of (9,145 MT) Gas Oil directly from foreign oil supplier at a premium of US $ 3.75 per barrel. (BK/26B/2011).

"According to the Secretary to the Ministry of Petroleum Industries, "CPC had faced shortages of petroleum products from time to time due to the following reasons:

- *Sri Lanka was heavily dependent on thermal power generation. However, supply requirement of Fuel oil was also dependent on varying weather patterns.*

- *Limits imposed by storage capacity made management of stocks extremely difficult.*

- *Due to the financial crisis situation prevailing since 2009 it was impossible have more stocks and had created situations where establishment of L/Cs got delayed frequently.*

- *The demand for petroleum products had been increasing over the past years at the rate of 4 - 6 percent per annum while the available storage facilities were fixed.*

The incident referred was arisen due to the sudden request for Gas oil from CEB which could not be avoided by CPC as a responsible government institution. Hence, that decision had been taken as it was most suitable arrangement available during the period.

The Ministry of Petroleum Industry had taken initiatives to build 10 new tanks at Muthurajawela/ Kolonnawa terminals. A committee appointed for this purpose was preparing a report to be submitted to the ministry within subsequent few weeks."

(d) According to the stock review meeting minutes, it was observed that a number of imports had not been processed and as a result CPC had to face a problem of lowering stock position. For instance, as a result of non-implementation of the decisions taken at the stock review meeting held on 30 March 2011, CPC had got in to a stock lowering position and the fuel imported on spot buying basis (emergency basis) in June 2011 had been revealed as contaminated (Gasoline). Details are in ***Annexure 5***.

(e) According to the information made available there were significant differences between the records maintained by the CPC and CPSTL relating to the total tank capacity in use as at 28 August 2012 and the condition of tanks. Details are as follows.

Product	Total capacity in use according to the records maintained by		Difference
	CPC	CPSTL	
	Metric Tons	Metric Tons	Metric Tons
Petrol - Octane 90	95,878	75,300	20,578
Petrol - Octane 95	8,434	8,440	06
Lanka Auto Diesel	165,888	151,859	14,029
Lanka Super Diesel	8,041	13,030	4,989

(i) Petrol (Gasoline) - Octane 90

Tank	Quantity Metric Tons	Condition of tanks according to the records maintained by	
		CPC	CPSTL
17	3,756	On going	Repair
31	13,100	Repair	On going
41	9,449	On going	Cleaning*

Cleaning* - Contaminated Petrol had been stored over ten month since June 2011.

(ii) Lanka Auto Diesel (LAD)

Tank No	Capacity	Usage of tanks according to records maintained by	
		CPC	CPSTL
26	6660	for LAD	for Super Kerosene
25	6600	for Lanka Furnace Oil (LF1500)	for LAD
24	6600	for LAD	for Lanka Super Diesel

The following observations are made in this regard.

- Credibility of information maintained by the CPC as well as the CPSTL is questionable.

- The actual condition of tanks and tank capacity had not been properly identified and recorded.

- Oil stocks of both the CPC and the CPSTL had been maintained in same tanks at Kolonnnawa terminal.

8. Usage of Storage Facility for Petroleum Products

CPC has the storage capacity at Muthurajawela and Kolonnawa tank farms managed by the CPSTL as follows.

Product	Muthurajawela		Kolonnawa		Total	
	Tanks Number	Capacity Mt. Tons	Tanks Number	Capacity Mt. Tons	Tanks Number	Capacity Mt. Tons
Fuel Oil (Furnace Oil)	5	48,774	12	48,200	17	96,974
Lanka Auto Diesel	16	103,259	5	48,600	21	151,859
Petrol (Gasoline)						
- 90 Octane	5	27,400	6	47,900	11	75,300
- 95 Octane	-	-	4	8,440	4	8,440
Kerosene	3	16,000	4	8,440	7	24,440
Total	29	-	27	-	56	-

Description		Muthurajawela	Kolonnawa
Loading base (Loading arm)	- Petrol	04	18
	- Diesel	10	15
	- Kerosene	02	09
Discharging time		02 days	6 days*
Delivery mean		Bowser	Bowser, Rail wagon, Pipeline
Discharge facility		60,000 Mt	40,000 Mt

6 days* - Due to unsound pipelines

Discharging time of o6 days at Kolonnawa tank farm was very long period when compared with Muthurajawela tank farm, and accordingly, it was observed that the pipelines of Kolonnawa tank farm were outdated and worn out.

Capacity utilization of each petroleum product per day is given in the following table.

Product	Date	Muthurajawela			Kollonawa		
		Average Capacity available per day	Capacity utilization (Actual average issues per day)	Capacity utilization as a percentage of capacity available	Average Capacity available per day	Capacity utilization (Actual average issues per day)	Capacity utilization as a percentage of capacity available
		Mt. Tons	Mt. Tons	Percentage	Mt. Tons	Mt. Tons	Percentage
Gasoline - Octane 90	01.06.2012	1000	500	50.0	1100	1089	99.0
	08.06.2012	1000	553	55.3	1100	1203	109.4
	15.06.2012	1000	562	56.2	1100	1262	114.7
	22.06.2012	1000	532	53.2	1100	1202	109.3
Diesel-(LAD)	01.06.2012	3500	1944	55.5	2100	2185	104.0
	08.06.2012	3500	1586	45.3	2100	2129	101.4
	15.06.2012	3500	1880	53.7	2100	2209	105.2
	22.06.2012	3500	2015	57.6	2100	1930	91.9
Kerosene	01.06.2012	250	143	57.2	200	159	79.5
	08.06.2012	250	83	33.2	200	126	63.0
	15.06.2012	250	133	53.2	200	215	107.5
	22.06.2012	250	123	49.2	200	241	120.5

(a) According to the above information it was observed that, even though necessary capacity and other distribution facilities were available at Muthurajawela Terminal, its distribution capabilities had not been optimally used by the CPC.

(b) It was observed that Muthurajawela Terminal had been used at a minimum level of operation in issuing petroleum products. Accordingly, following benefits had not accrued to the CPC from the investment made. Details are in ***Annexure 6.***

- Savings port charges
- Shortening lay time of vessels
- Reducing demurrage charges
- Savings delivery costs
- Reducing human resource costs
- Savings delivery loss at the point of discharging of fuel through pipelines
- Reducing traffic congestions in delivering fuel by bowsers.

9. Procurement of Octain-92 Petroleum Products

According to the Platt Singapore product assessment, petroleum products of Gasoline (Petrol) 92, 95 and 97 Octane were unable to be produced at the refinery of the CPC due to lack of required machinery and equipment. Accordingly, it was revealed that Gasoline - 90 Octane had been produced at the refinery of the CPC and the gap between the country demand and the quantity produced at the refinery had been imported from the international market. However, according to the Platt Singapore product assessment, the petroleum product of Gasoline - 90 Octane was not made available in the market (earlier such product was available) and as such, there was no price category for such production in the market. Nevertheless, the CPC had used to invite for bids to import gasoline - 90 Octane (Quality was lower than the 92 Octane) at the 92 Octane price made available in the international market. A quantity of 1,284,034 barrels of gasoline 90 Octane (Details are in ***Annexure 7***) had been imported during the year 2011 at 92 Octane price. The following observations are made this connections.

(a) Even though Gasoline 92 Octane is more productive and is superior in quality than the Gasoline 90 Octane product, any awareness programs or promotion activities had not been performed to persuade customers to purchase 92 Octane instead of 90 Octane product. *"According to the Secretary to the Ministry of Petroleum Industries," due to the present constraints in storage, distribution and pipe lines, CPC is not in a position to market Gasoline 92 octane as the third option for Gasoline users. CPC is now considering the introduction of Euro standard fuels in the future with the improvements of its infrastructure facilities".*

(b) Gasoline 90 Octane had been purchased at the 92 Octane price without bargaining or negotiating with suppliers at the bid evaluation stage of the procurement process to obtain a recommendation on the premium of that product.

(c) Low quality Gasoline (Lower than 90 Octane) produced at the refinery of the CPC had been blended with 319,544 barrels of imported Gasoline 92 Octane to make

Gasoline 90 Octane product and such blended product has been distributed all over the Island during the year 2011.

10. Pipeline Network for Oil Transportation

Refined petroleum products are stored at Kolonnawa and Muthurajawela Terminals and there was a pipeline network running between Colombo Port and the Kolonnawa to transfer imported petroleum products to Ceylon Petroleum Storage Terminal Limited (CPSTL). Out of five pipe lines laid from Colombo Port to Kolonnawa Installation two lines had been abandoned and the other three pipelines in operation were damaged, deteriorated and partially exposed.

The Muthurajawela installation is fed through a Single Point Buoy Mooring (SPBM) facility located in the mid sea about 6 km from the shore and 7.2 km from Muthurajawela Terminal and there was no alternative supply source in case of rough sea conditions or when the SPBM is under maintenance. At the same time there was no linkage between the Muthurajawela Terminal and Kolonnawa Installation for inter-terminal product transfers and, which had also hampered the optimum utilization of those terminals due to those constraints. There was a separate SPBM for transfer crude oil to refinery situated at Sapugaskanda.

All kinds of petroleum products are distributed by Kolonnawa Terminal through Rail Wagons and Bowsers. However, only bowsers were used to transport fuel from Muthurajawela and Sapugaskanda Terminals.

According to the above information, following observations are made.

(a) Even though the design life span was only twenty five years, the existing pipelines of the Kollonnawa terminal are seventy years old.

(b) The following weaknesses arising due to lack of adequate pipeline facilities and weaknesses in existing pipelines were observed in audit.

   (i) According to the information provided by the CPSTL, twenty seven instances of oil leakages had been observed during the period from April to November 2012.

   (ii) A possible leakage of petroleum products in the course of a pumping operation through an area crowded with illegal constructed dwelling alongside pipelines causing secure damage to life and property cannot be ruled out.

   (iii) CPC had incurred extra cost on freight and demurrage charges due to the extended time taken to unload ships at very low flow rates.

(c) Several petroleum products had been discharged through same pipe lines because of the lack of separate pipelines. This condition as well could cause contamination of products.

(d) Even though, the approval of the Cabinet of Ministers had been granted for the "Cross Country Pipeline Project" on 13 September 2012, such project had not yet been implemented. The following observations are made in this regard.

(i) A Project Management Consultant has not yet been appointed.

(ii) Written approval had not been obtained from Sri Lanka Railway for the laying pipelines alongside to the rail track.

(iii) Written approval had not been obtained from Sri Lanka Ports Authority to reconstruct the oil unloading facilities at the Dolphin Pier.

11. Outturn Quantity

According to Section 9 of the General Bid Document, in the event that the outturn loss (outturn quantity Vs. B/L quantity) is in excess of 0.5 percent and/or there is any free flowing product left on board as reported by the Independent Inspector at discharge port, seller shall deduct the excess loss and/or free flowing product left on board from the B/L quantity for invoice purpose. However, according to the audit test carried out for the period from June 2011 to June 2012, it was observed that in certain instances that the said loss had not been deducted from the invoices. Accordingly, the loss incurred by the CPC amounted to Rs. 26,535,673. Details are in ***Annexure 8***.

12. Demurrage Payable

(a) According to the information made available to audit it was observed that, sums of US$ 795,393.71 and US$ 726,867.31 had been claimed by suppliers as demurrage for the years of 2011 and 2012 respectively. Those demurrages had been claimed by suppliers as a result of operational and financial inefficiencies of CPC. Specifically, certain operational weaknesses such as giving instructions to stop discharging operation of the existing ship in the Pier to give the priority for another ship and certain financial weaknesses such as delays in opening Letters of Credit etc. had caused delay in discharging the products within the agreed laycan period by suppliers at the discharging ports. Details are in ***Annexure 9.***

(b) Demurrage due to delays in arrival of ships

According to the general conditions of the CPC agreement with the suppliers, the successful bidder is fully responsible to deliver the cargo within the agreed upon laycan period. Failure to comply with the agreed delivery laycan will make the supplier liable for a penalty of 0.01 percent of the DES value per each day of delay. The following observations are made in this regard.

(i) Above condition was valid with effect from 05 March 2012 and there was no proper system to charge penalties from suppliers for delaying up to that date Even though, several ships had reached the discharge port after delays during the period from 01 January 2011 to September 2012, necessary action had not been taken to charge penalties on the relevant suppliers for delays.

(ii) Sixty two ships had arrived at discharge port during the year 2011 and out of that arrival to 27 ships had been delayed. Out of 42 ships arrived at discharge port during the period from 01 January to September 2012, twenty three ships had been delayed, and as a result the following issues had been encountered by the CPC. Details are in ***Annexure 10.***

- CPC had to faced stock shortages thus, immediate stock purchases had to be made.

- Ultimate balances of stocks contained in the oil tanks had to be used.

- Demurrage had been claimed by other ships which had been scheduled to reach the port on time, but they were unable to reach the discharge port as earlier ships had not finished the discharging. For example US$ 233,577.30 had been claimed by Lanka IOC Plc.

(c) Demurrage due to delays in opening Letters of Credit (LC)

Under the Order No. BK/38/2012, CPC had ordered 165,000 barrels of Gas Oil (0.25% M.S.) and 145,000 barrels of Gasoline (90 UNL) on 06 July 2012 from an Asian Oil Company (beneficiary) and the Commercial Manager of the CPC had requested the supplier to load the said vessel and to sail to Colombo as scheduled on the assurance of the opening of the LC on 16 July 2012. Even though the Bank of Ceylon had informed the CPC on 17 July 2012 to confirm the swift code and advise the Bank immediately in case of any error or omission, the CPC was unable to confirm the correct swift code to the bank in time (informed only on 19 July 2012) and as a result the BOC had sent the LC to an incorrect bank on 18 July 2012 (LC transmit date) and the beneficiary (supplier) had refused to accept it. However, the supplier had confirmed on 21 July 2012 that the vessel would arrive on 22 July 2012 at the discharging port. Even though the amended LC had been sent on 24 July 2012 to the supplier's bank, the supplier had claimed a sum of US$ 31,366.67 as demurrage for the delay in opening of LC.

13. Deficiencies in the Procurement of Petroleum Products

(a) BK/17/2011 – Import of 150,000 barrels of Gas Oil (Diesel), 136,000 barrels of Gasoline 92 and 34,000 barrels of Gasoline 95

The following observations are made.

(i) According to the stock review meeting minute dated 03 May 2011, it had been decided to import above mentioned products. In response to the call for bids from 61 foreign suppliers by fax, only one supplier (an Indian oil company) had offered a bid.

(ii) In this bid the quality of Gas Oil (0.25 percent Max Sulphur) and Gasoline (92 Octane) offered by the said Indian oil Company was in conformity with the bid specifications. However the density of Gasoline (95 Octane) had not complied with the specifications.

(iii) The TEC had recommended CPC to make a request to the Supplier "said Indian oil Company", to increase the volume of Gasoline (92 Octane) and drop the Gasoline (95 Octane) volume.

(iv) However, the Special Standard Cabinet Appointed Procurement Committee had not agreed to the TEC recommendation and had given a direction to recall the bid only for Gasoline (92 Octane). In addition, the SSCAPC had also directed to increase the quantity of Gasoline (92 Octane) from 136,000 barrels to 255,000 barrels.

(v) Bids were recalled for second time to procure the Gasoline (92 Octane). In response to the calling for bids from 61 registered suppliers, only the same bidder, the "said Indian oil Company" had offered. Although the TEC had recommended awarding the bid to the said Indian oil Company, the SSCAPC had decided to look for other alternative sources as the said offer was not within the requested period of delivery.

(vi) The then Secretary of the Ministry of Petroleum Industries had informed the CPC Procurement Committee to make arrangements to import minimum requirement of above products from an Emirates Oil Company Based in Singapore (EOCBS) subject to covering approval of the SSCAPC. The SSCAPC had later on endorsed the arrangements made by Secretary in view of the stock position. However, EOCBS's offer had been received on 02 June 2011 after the SSCAP approval on 01 June 2011. Therefore it was observed that SSCAPC had approved the purchase of fuel from the said supplier without any evaluation.

(vii) Due to failure to adhere to the procurement procedure, covering approval of the Cabinet of Ministers had not been granted to this procurement.

(viii) The previous offer made by the said Indian Oil Company had been rejected as the requested period of delivery (Laycan) was 17-18 June 2011. However, EOCBS's cargo also had arrived in the country during the same period as offered by the said Indian oil Company, which was 16 June 2011.

(ix) According to the EOCBS's offer, it was observed that certain specifications did not match with CPC's specifications. However TEC had not evaluated the effects that can arise from this deviation and SSCAPC had approved this offer without the recommendation of the TEC. Details are as follows.

Property/Test	CPC Specification	EOCBS Specification EOCBS officer
Reid vapour pressure @37.8 DEG C Kpa	Max 60	Max 70
Motor Octane Number (MON)	Min 82	Report
Marketing Colour	Colourless	Colourless or light yellow
Distillation		
IBP DEG C	Report	-
10 percent evaporated DEG C	45-70	Report
50 percent evaporated DEG C	80-125	Report
90 percent evaporated DEG C	Max 180	Report
Evaporation at 150 DEG C percent	Min 70	Report
Oxygenate content vol percent	Max 15 or Oxygen content MAX 2.7 percent Wt	Report (1)*

IND. Period @ 100 DEG C	Min 480 minutes	Min 240 minutes

Report (1)* - MTBE, TAME and Ethanol may be added.

(x) The email dated 16 June 2011 sent by Deputy Commercial Manager to Deputy Operational Manager with a copy to Deputy Corporation Manager (off shore facilities) stated that the approval had been obtained from the Secretary to the Ministry of Petroleum Industries and requested to immediately berth the tanker on arrival and to commence discharge of cargo pending the laboratory results.

(xi) It was observed that the fuel had been discharged without checking the quality report that need to be submitted by the Independent Inspector at discharge port.

(xii) Out of this total consignment, 1,342 barrels of Gasoline valued at US$ 164,457 had not been discharged. However, CPC had paid the total amount of Rs. 2,330 million to the supplier "EOCBS".

(xiii) It was observed that 3,302 complaints had been received from customers who used this contaminated fuel in the given time period and 1,888 claims had been approved for the payment. Accordingly the Corporation had paid Rs. 28 million as compensation for damaged caused to the motor vehicles.

(xiv) As a practice CPC imports fuel under Delivered Ex- Ship (DES) basis. However Gasoline and Gas Oil purchased from EOCBS were on FOB basis. Therefore title and risk of the oil under this agreement had been passed from EOCBS to CPC at the port of loading. Therefore CPC had to bear insurance and freight charges. Accordingly, CPC had chartered a vessel for the carriage of this combined cargo of Gasoline (92) and Gas Oil (0.25 percent Max Sulpher) at a cost of US$ 585,000.

(xv) Gasoline had been purchased from EOCBS at US$ 2 per barrel (only the premium) on FOB basis. However, when it was converted into DES price premium increases up to US$ 4.14 per barrel approximately. The said Indian Company had offered a lower premium (US$ 3.15 and US$ 3.90 respectively) than EOCBS's premium for both bids. However CPC had cancelled both bids and had awarded the contract to EOCBS without considering the TEC recommendations.

(b) Procurement of 140,000 Metric Tons of Low Sulphur Fuel Oil 180 Cst. – A Petroleum Product company in UAE

(i) Four quotations had been received for the above procurement and the lowest quotation was received from a Petroleum Product company in UAE. However, this company was not a registered supplier of the CPC and the said company had offered a bid on behalf of an another UAE Company which was a registered supplier of the CPC and which was also a subsidiary company of the above mentioned Petroleum Product company in UAE. Accordingly, it was observed that an offer for a bid had been accepted by the CPC from an unregistered supplier. It was also observed that Performance Bond had not been obtained from that company.

(ii) Details on the first cargo delivery date and other delivery dates and also, reference to the amendment to the bid notice sent to them on 20 August 2011 had not been provided to the CPC. TEC had recommended the offer received from the said supplier and the SSCAPC had approved it subject to reconfirmation of compliance with requirement pertaining to fuel specifications of the CPC and the delivery dates.

(iii) CPC had accepted by its letter dated 07 September 2011, the offer subject to all terms and conditions stipulated in the bid notice for a period of six month commencing from 10 September 2011. The first cargo should have been delivered on 15 September 2011 and it should be followed by three parcels (consignments) of 35,000 Mt. +/- 10 percent each to be supplied every six weeks.

(iv) However, the CPC was unable to sign an agreement with the supplier until 07 October 2011 and accordingly, the supplier had delayed to supply of fuel and the first cargo had arrived at Colombo on 01 November 2011. Due to the delay CPC had to import Fuel Oil, as mentioned below, from other suppliers on urgent basis in certain instances with higher premium to avoid power cuts. Accordingly, the loss incurred by the CPC amounted to US$ 2,516,500.

Bulk Reference	Laycan date	Quantity	Premium on urgent basis	Premium of term contract	Difference of premium	Incurred loss	Remarks
---------------	------------	-----------	-----------	------------	------------	-----------	-----------
		Mt. Tons	US$	US$	US$	US$	
BK/45/2011	20-25 September 2011	20,000	51.88	54.00	2.12	-	Out of spec.
BK/49/2011	10-11 October 2011	35,000	68.90	54.00	14.90	521,500	-
BK/03/2012	07-08 January 2012	35,000	111.00	54.00	57.00	1,995,000	-
Total loss						**2,516,500**	

(v) Terms and condition such as laycan date, vessel compliance, transferable LC, etc. included in the agreement had been amended on the request of the suppler after signing the agreement. Even though, the Chief Legal Officer had advised the Commercial Manager to get the Attorney General's opinion to safeguard the interest of CPC, such opinion had not taken by the CPC.

(vi) Under the first agreement 109,995 metric tons of Low sulphur fuel oil had been imported from the above mentioned Petroleum Product company in UAE instead of 140,000 Metric tons according to the agreement, due to inefficiency of the procurement process.

(vii) Under the normal procurement procedure the quantity of petroleum products are determined on "Air" basis for invoicing. However in this term contract entered into with above mentioned Petroleum Product company in UAE, "Vacuum" basis for the determination of quantity had been applied. As a result the CPC had incurred a loss of US$ 54,147.51. The following purchases had been made under the first term contract entered into with the said company.

Bulk Number	Quantity (Air)	Quantity (Vacuums)	Quantity used for invoice	Invoice Price Per Mt. Ton	Invoice Value		Over Payment
--------------	-------------	--------------	--------------	-----------	---------------------------		------------
	Mt. Tons	Mt. Tons	Mt. Tons	US$	US$	Rs. Mn.	US$
BK/011/051	37,559,780	37,602,484	37,559,780	753.615	28,305,613	3,138	-
BK/011/062	38,449,356	38,494,413	38,494,413	801.968	30,835,153	3,538	36,134.27
BK/012/017	33,987,238	34,025,900	34,025,900	816.518	27,733,178	3,652	18,013.24
Total							**54,147.51**

(viii) Even though the first agreement had expired on 30 April 2012, the Stock Review Committee had decided to procure 35,000 Mt. of LSFO with the laycan of 10-11 May 2012 from the above mentioned Petroleum Product company in UAE. However, the supplier had requested the CPC to extend the existing agreement to supply the cargo. Accordingly, the agreement had been extended from 01 May 2012 to 31 October 2012 with the approval of the Cabinet of Ministers by letter number 12/0525/510/009/TBR dated 18 April 2012. However, it was observed that the second term agreement had been prepared and signed by the above mentioned Petroleum Product company in UAE on 11 April 2011 and the CPC had agreed to all the amended terms and before the approval conditions other than LC condition with regard to "Tank cleaner certificate". The following observations are made in this connection.

- TEC of the CPC had, by its report dated 16 April 2012, recommended the extension of the existing term agreement, entered into between the CPC and above mentioned Petroleum Product company in UAE, for a further period of six months from 01 May 2012 to 31 October 2012 to import Low Sulphur Fuel Oil (1.8 percent Sulphur Max), and for the change of 3 clauses of the existing agreement (laytime, delivery laycan and price clause). Further, the aforesaid change in the agreement, which had been proposed by the above mentioned Petroleum Product company in UAE on 11 April 2012 and recommended by the TEC, had been approved by the SSCAPC on 17 April 2012. Accordingly, it was observed that the change made to the pricing clause had not been appropriately considered when granting the recommendation and the approval for the changes of the terms of the agreement. The Chairman of the CPC had signed the agreement on 20 April 2012 based on the recommendations of the TEC and the approval of the SSCAPC. Further, any advice or clarification from the Chief Legal Officer of the CPC had not been obtained for the aforesaid changes.

- The revised price formula as described in the second agreement, which had included a clause as "USD/MT = "FUEL OIL 180 CST 2 PCT S" + "THE CONTRACT PREMIUM", had not been scrutinized by the TEC and the SSCAPC.

- According to the first agreement between the CPC and the above mentioned Petroleum Product company in UAE, DES Colombo price for fuel oil (1.8 percent Maximum Sulphur) based on B/L quantity in Metric Tons in US$ shall be calculated as '100 percent of the arithmetic average of the mean of low and high quotations for **"Fuel Oil 180 Cst (2 percent's)** as published by Platts Asia Pacific/Arab Gulf Market scan under the heading "Singapore" for five (5) quotes around B/L date, i.e. two (2) issues proceeding the B/L date, the B/L date and two (2) issues following the B/L date plus a fixed premium of US$ fifty four (54) per MT. However, in the second agreement with the company DES Colombo price Fuel Oil (1.8 percent Max Sulphur) based on B/L quantity in Metric Tons in US$ shall be calculated as "**Fuel Oil 180m Cst 2.0 percent's" plus a fixed premium of US$ fifty four (54) per MT**.

- Where, **"Fuel Oil 180 Cst 2.0 percent's"** had been defined as "100 percent of the arithmetic average of all the mean of low and high quotations for "**HSFO 180 Cst"** as published by Platts Asia Pacific/Arab Gulf Market scan under the heading "Singapore" for five (5) quotes around B/L date, i.e. two (2) issues proceeding the B/L date, the B/L date and two (2) issues following the B/L date plus a fixed premium of US$ fifty four (54) per MT.

- According to the second agreement of the above fixed premium of US$ fifty four (54) had been included **twice** in the price. Therefore, the CPC had to pay additional fifty four US$ per MT and the total overpayment was US$ 2,060,842.

Bulk Number	Quantity (Air)	Quantity (Vacuums)	Quantity used for invoice	Invoice Price Per Mt. Ton	Invoice Value		Over Payment
	Mt. Tons	Mt. Tons	Mt. Tons	US$	US$	Rs. Mn.	US$
BK/012/025	38,163,744	38,207,488	38,207,488	753.040	28,738,825	4,001	2,060,842
BK/012/034	38,400,962			643.078	24,694,814	3,328	

- According to the LC format of the agreement, the Acting Senior Deputy Finance Manager (Foreign Supplies) had opened an LC for US$ 27,246,450 in line with the estimated value submitted by the Commercial Manager of CPC on 24 April 2012. However, on 26 April 2012, above mentioned Petroleum Product company in UAE had by an email requested the Commercial Manager of the CPC to increase the LC value up to US$ 32,000,000. Accordingly, the Acting Senior Deputy Finance Manager (Foreign Supplies) had enhanced the LC value up to US$ 32,000,000 on 26 April 2012 without verifying the reasonableness of the enhancement of the LC margin. Accordingly, it was observed that the value of the LC had been enhanced by a sum of US$ 4,753,550 without due care and attention being paid to the reasonableness of changes in the pricing formula of the agreement. It was further observed that the Deputy Finance Manager had not carefully gone through the agreement before enhancing the LC margin. This was identified as a major weakness in the internal control system of the CPC.

- However, only 11,051 MT had been discharged from the second shipment due to an engine related problem of the vessel. The payment had not been released to supplier up to the date of this report. Instead the CPC had obtained a Court order from the Commercial High Court, Colombo restraining the Bank of Ceylon from making payment of any amount to above mentioned Petroleum Product company in UAE. However, Commercial High Court decision was under appeal in the Supreme Court and in addition above mentioned Petroleum Product company in UAE had filed an arbitration case at SIAC, Singapore.

(ix) Later on conditions of the agreement/ Letter of Credit had been amended several times after lengthy negotiations between the CPC and the Supplier. Due to this lengthy negotiation process CPC had to procure the same product from another supplier to avoid fuel shortages in the country. Accordingly, a considerable expenditure had been incurred by the CPC for supply of Diesel instead of supply of Furnace OIL to the CEB.

(c) BK/45/2011 – Procurement of low Sulphur Fuel Oil 1,500 Sec – 20,000 Metric Tons

(i) According to the specifications given to the supplier, Sulphur Content should be a maximum of 1.8. However, according to the tanker quality report the actual result of Sulphur Content was 1.84. Accordingly, there was a difference between the required specification and the actual specification of the product. Even though the vessel had arrived at the discharge port within the lay can period, discharge of the cargo was not allowed by the Commercial Manager of the CPC due to the difference of the quality of the product. As a result, CPC had taken action to issue 1,551 Kilo Liters of Auto Diesel (as an alternative fuel) to a local power supplier in place of Low Sulphur Fuel Oil and the Auto Diesel had a cost of (1,551,000 X Rs. 76) Rs. 117,876,000. Out of that, according to the Fuel Oil price of Rs. 52 approved by the Ministry of Finance and Planning, a sum of Rs. 80,652,000 (1,551,000 X Rs. 52) had been paid by the said local power supplier. to the CPC. Accordingly, the CPC had incurred a loss of Rs. 37,224,000. Therefore, the TEC of the CPC had recommended to SSCAPC that a penalty should be imposed on the supplier as the cargo delivered was off-specification at the discharge port in Colombo. However, the CPC had not taken necessary action to impose a penalty on the supplier to recover the loss incurred by the CPC. Nevertheless, such stock of low Sulphur Fuel Oil 1,500 Sec – 20,000 Metric Tons had been discharged to Muthrajawela tank 1 ½ days later.

(ii) Furthermore, auto diesel had been issued to the said local power supplier instead of Low Sulphur Fuel Oil in several instances due to lack of Low Sulphur Fuel Oil in the stock. According to the audit tests carried out in this regard, it was observed that the stock control procedure followed by the CPC relating to the said product was unsatisfactory. Accordingly, the CPC had incurred a loss of Rs. 2,728,492,800 due to sale of Auto Diesel instead of Low Sulpher Fuel Oil during the period from 15 June 2011 to 11 August 2012. Details are as follows.

Period	Quantity (Ltr)	Loss per (Ltr)	Sub Total	Total Rs.
15.06.2011-02.07.2011	11,814,000	24	283,536,000	
05.08.2011-16.08.2011	10,329,000	24	247,896,000	889,416,000
15.09.2011-27.09.2011	14,916,000	24	357,984,000	
20.12.2011-31.12.2011	7,029,000	32	224,928,000	
01.01.2012-23.01.2012	25,568,400	32	818,188,800	1,043,116,800
24.07.2012-11.08.2012	19,899,000	40	795,960,000	795,960,000
Total				2,728,492,800

(d) Import of 3,600,000 Barrels (480,000 MT.) of Gas Oil (0.25 percent Max Sulphur) - Emirates Oil Company Based in Singapore (EOCBS)

Ceylon Petroleum Corporation had entered into a term contract with an Emirates Oil Company Based in Singapore (EOCBS) to import of 3,600,000 barrels (480000 MT) of Gas Oil (0.25 percent Max Sulphur) at a premium of US$ 1.60 per barrel on the basis of CFR (Cost & Freight) for a period of six months commencing from 01 may

2011. (CFR – Title and risk of cargo shall pass from seller to buyer at loading manifold, at load port).

According to the Cabinet decision dated 27 April 2011 based on the Cabinet Memorandum dated 06 April 2011 presented by the Minister of Petroleum Industries on "Procurement of Gas Oil", the premium had been calculated based on the average of last couple of months (February and March 2011) and last two bids awarded was well above of US$ 2.00 (DES – Delivery ex ship) per barrel. However, the actual rates according to the last couple of months and last two bids were as follows.

Bulk	Bill of Lading Date	Actual premium (US$ Per barrel)	Basis
BK/05/2011	20 February 2011	0.45	DES
BK/06/2011	24 February 2011	0.30	DES
BK/07/2011	15 March 2011	1.42	DES
BK/08/2011	08 March 2011	1.28	DES
BK/09/2011	27 March 2011	2.50*	DES
Total		**5.95**	

The actual premium of Gas Oil relating to BK/09/2011 had been US$ 2.50 per barrel as it was a combined cargo (Gas Oil and Gasoline) which was well above the normal cargo premium.

Average premium of last two months was 5.95/5 = US$ 1.19

Average premium of last two bids was 3.78/2 = US$ 1.89

(i) Accordingly, it was observed that the average premium of last two months and last two bids were well below the premium of US$ 2 as indicated in the Cabinet memorandum, as the basis for the consideration of the premium, was incorrect.

(ii) Further, information on the invitation for bids sent to each supplier, offers received for bids, TEC recommendations and SSCAPC minutes relating to the term contract entered into between the CPC and the said Emirates Oil Company Based in Singapore (EOCBS), were not made available to audit.

(iii) According to the Cabinet decision dated on 24 March 2011, with the attention of the Cabinet of Ministers drawn to the Cabinet Paper No.11/0540/510/005 dated 08 March 2011, the approval had been granted to procure three months requirements of Diesel and Petrol from the registered suppliers of the Ceylon Petroleum Corporation in order to get a comparatively lower premium from the perspective bidders. However, the CPC had entered into a term contract with the said Emirates Oil Company Based in Singapore (EOCBS) for the period of six months (from 01 May 2011 to 31 October 2011) to import of 3,600,000 barrels (480,000 MT) of Diesel (Gas Oil - 0.25 percent Max Sulpher) at a premium of US$ 1.60 per barrel. Since, the actual requirement of that period had not been properly forecasted, the CPC was unable to import full requirement of diesel during the contracted period from EOCBS. Therefore, the gap between the actual requirement and the quantity of 1,444,704 barrels from EOCBS had to be imported through 9 spot purchases from 3 suppliers. As a result, the estimated loss incurred by the CPC during the said period amounted to US$ 1,515,968 approximately as given below.

Bulk Number	Quantity	Quantity	Premium per barrel	Term contract premium per barrel	Difference per barrel	Loss
	Barrels	Mt. Tons	US$	US$	US$	US$
BK/ 26(B)/2011	68,411	9,145.144	3.75	1.60	2.15	147,083.7
BK/28/2011	245,472	28,966.075	3.17	1.60	1.57	385,391
BK/36/2011	76,910	10,380.897	3.06	1.60	1.46	112,288.6
BK/38/2011	299,163	40,583.403	2.07	1.60	0.47	140,606.6
BK/40/2011	143,177	19,422.388	2.05	1.60	0.45	64,429.65
BK/43/2011	73,501	9,776.709	3.37	1.60	1.77	130,096.8
BK/46/2011	314,816	41,052.279	2.49	1.60	0.89	280,186.2
BK/47/2011	273,273	37,065.954	2.07	1.60	0.47	128,438.3
BK/48/2011	149,938	19,630.459	2.45	1.60	0.85	127,447.3
1,515,968.1						

(iv) Estimated loss of US$ 2,422,571 – Petrol

Even though the approval had been granted by the aforesaid Cabinet decision to procure three months requirements of Petrol from the registered suppliers of the Ceylon Petroleum Corporation in order to get a comparatively lower premium from the perspective bidders, the CPC had entered into 6 months terms contract to import Diesel only. Further, necessary action had not been taken by the CPC to import Petrol in terms of the Cabinet decision and had used to import petrol on spot bid basis. Accordingly, the CPC had incurred an estimated loss of US$ 2,422,571 as the spot bid premium was much higher than the previous couple of months' average premium, during the year 2011. Details are given below.

Average premium (before Cabinet Memorandum 06/04/2011)

BK/03	20/01/2011	3.77
BK/05	20/02/2011	2.4
BK/06	24/02/2011	2.26
BK/09	27/03/2011	1.84
Total		10.27

Average premium 10.27/4 = **2.5675**

Bulk	B/L Date	Quantity	Actual premium Per barrel	Total premium
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		Barrels	US$	US$
BK/11/2011	18 April 2011	185,000	3.38	625,300
BK/13/2011	28 April 2011	85,000	2.83	240,550
BK/17/2011	08 June 2011	170,000	4.14	703,800
BK/22/2011	21 June 2011	220,000	3.9	858,000
BK/26/2011	11 July 2011	255,000	4.8	1,224,000
BK/28/2011	30 July 2011	38,250	3.02	115,515
BK/36/2011	18 August 2011	255,000	1.99	507,450
BK/43/2011	25 Sept. 2011	255,000	7.47	1,904,850
	Total	**1,463,250**		**6,179,465**

	US$
Total actual premium paid by CPC	6,179,465
Total premium under average premium	3,756,894

Difference	**2,422,571**

(e) Procurement of 185,000 barrels of Gas Oil and 115,000 barrels of Gasoline (BK/11/2011)

Bids had been invited on 16 March 2011 to import of the above petroleum products on credit basis for a period of 360 days and the bid opening date was 22 March 2011. However, it was revealed that the maximum credit period allowed for the previous procurements up to the said procurement was only 180 days. No offers for the said bid had been received for 360 days credit period and three offers had been received for 180 days credit basis. However, the TEC had rejected those offers and recommended to re-invite for bids and to allow at least ten days of lead time from the date of floating the bid, for the bidders to submit their bids. Accordingly, the SSCAPC had decided to cancel and recall the bid. And also, SSCAPC had decided to float the new bid for payment terms of 180 days, 270 days and 360 days with the appropriate amendment to clause 4 of the bid document (price/payment/ interest) and the bid opening date should be 10 days from the bid floating date. Therefore, the CPC had cancelled the said bid on 24 March 2011 and recalled the bid on 29 March 2011 with the same delivery laycan of 28-29 April 2011 and the bid opening date was 05 April 2011. Accordingly it was observed that,

(i) Even though the SSCAPC had decided to allow at least ten days of lead time from the date of floating the bid, for the bidders to submit their bids, the CPC had allowed only seven days of lead time.

(ii) Even though the previous offers received for payment terms of 180 days had been cancelled and recalled, in subsequent events offers had been accepted on the same payment term of 180 days. However, the premium offered by the suppliers was well above the previously offered rate. Details are as follows.

Product	Premium offered on 22 March 2011 (First bid – A Singapore based company)	Premium offered on 05 April 2011 (Second bid – another Energy company in Singapore	Difference between the two offers (Increase in premium)
	(US$)	(US$)	(US$)
Gas Oil (Diesel)	2.08	2.11	0.03
Gasoline (Petrol)	3.08	3.38	0.30

As a result of the cancellation of the first offer and refloating the bid, the CPC had incurred an estimated loss of US$ 43,213.33 as computed below.

Product	B/L Full Quantity (1)	Excess premium paid (2)	Loss on excess premium (3)	Loss on interest [(3) X LIBOR plus Interest rate X 150/ 360] (4)	Total (3) + (4)
	Barrel	US$	US$	US$	US$
Gas Oil (Diesel)	203,400	0.03	6,102.00	79.71	6,181.71
Gasoline (Petrol)	121,848	0.30	36,554.40	477.22	37,031.62
Total			42,656.40	556.93	43,213.33

(iii) Existing payment term of 180 days had been increased up to 360 days without obtaining proper approval of the SSCAPC and the reasons for such increase were not made available to audit.

(f) Agreement between CPC and an Oil supplier in Singapore for purchase of Gas Oil (0.25 percent Max Sulphur)

(i) According to the term contracts entered into between the CPC and suppliers of petroleum products, DES Colombo price for Gas Oil had been calculated based on 100 percent of the arithmetic average of all the mean of low and high quotations for Gas Oil (0.25 percent's) as published by Platt's Asia Pacific/ Arab Gulf Market Scan under the heading "Singapore" for five (5) consecutive quotes around B/L date, (i.e. two (2) issues immediately preceding the B/L date, one (1) issue on the B/L date and two (2) issues immediately following the B/L date) plus a fixed premium. However, according to the SSCAPC meeting held on 14 March 2012 for the purchase of Gas Oil (0.25 percent Max Sulphur), it was recommended that agreement between the CPC and an oil supplier in Singapore be signed subject to the change the clause 8 (A) incorporating a single option of pricing i.e. either five (5) consecutive quotes around B/L date or average Singapore price over the B/L month.

(ii) However, according to the Term Gas Oil sale agreement No. 01-GO/PVOSN-CPC/2012, entered into as of 25 January 2012 between the CPC and the above mentioned oil supplier in Singapore, the DES Colombo price had been calculated as "100 percent of the arithmetic average of all the mean of low and high quotations for Gas Oil (0.25 percent's) as published by Platt's Asia pacific/ Arab Gulf Marketscan under the heading "Singapore" during either (a) the month in which the date of the bills of lading issued in respect of the relevant delivery falls; or (b) the month in which the first day of the relevant delivery laycan falls, in sellers option plus a fixed premium of UD$ 1.57 per barrel.

(iii) Accordingly, it was observed that as a result of changing the basis for calculating DES Colombo price for Gas Oil in favour of the seller and the option of selection of the month (either B/L or delivery month) being up to the seller, CPC had incurred a considerable loss. According to the audit test carried out on the procurement of Gas Oil made during the year 2012, it was observed that, the CPC had incurred an estimated loss of US$ 5,499,781.67 as compared with the previous DES Colombo price calculating method, as a result of changing the basis for calculating the DES Colombo price for Gas Oil. Details are as follows.

Bulk number ----------------	Amount of Barrels ---------------	Arrival Date -------------	B/L Date --------------	Pricing Month ------------	B/L Month MOPS- ------------	Delivery Month MOPS- ------------	Difference per barrel ------------	Loss ----------------
					USD	USD	USD	USD
BK/42/2012	66,159	August 08 2012	May 27 2012	August	123.976	130.145	6.169	408,134.81
	152,200	August 08 2012	May 31 2012	August	123.976	130.145	6.169	938,921.80
	84,993.94	August 08 2012	May 31 2012	August	123.976	130.145	6.169	524,327.62
BK/44/2012	300,973	August 16 2012	July 28 2012	August	118.363	130.145	11.782	3,546,063.89
	3,494.04	August 16 2012	July 28 2012	August	118.363	130.145	11.782	41,166.78
BK/51/2012	294,993.32	September 06 2012	August 30 2012	September	130.145	131.774	11.782	41,166.78
				Total loss				**5,499,781.67**

14. Reinstatement of an Singapore based Asian Oil Supplier and awarding contracts contrary to the Procurement Procedure

CPC had imported 20,000 metric tons of High Sulphur 1,500 Secs Fuel Oil from an Singapore based Asian Oil Supplier who is a registered supplier of the CPC since 06 May 1982. The above cargo of fuel oil had caused damage to the power plants of independent power suppliers in the country. Accordingly, the Board of Directors had decided at its meeting held on 28 September 2009, to take legal action against the said oil supplier and to remove the name from the registered suppliers list and to take action to blacklist as the image and the reputation of the CPC being tarnished. However, the Attorney General's opinion was to cancel the registration to supply petroleum product to CPC and not to purchase any more fuel from the above mentioned supplier in the future. And it was further advised, not to blacklist this supplier as in such case the CPC does not have concrete evidence to take legal action. The following observations are made in this regard.

(a) According to the letter No. CH/27/2010 dated 15 September 2010 issued by the Chairman of the CPC, the supplier and the CPC had agreed to settle the issue unresolved for a long time.

(b) According to the Board decision No. 31/1107 dated 30 June 2011, it had granted approval for CPC to receive US$ 150,000 as an ex gratia payment to CPC from the said Singapore based Asian Oil Supplier, in settlement of the said matter and to reinstate the company in the registration of the supplier list, subject to the approval of the Hon. Minister of Petroleum Industries. However, the approval of the Honorable Minister had not been obtained and submitted to the TEC.

(c) The above mentioned Singapore based Asian Oil Supplier had paid a sum of US$ 150,000 to the CPC on 27 July 2011 and the CPC reinstated the registration of said company as a supplier of petroleum products. On 26 and 27 July 2011 under BK/29/2011 a bid had been awarded to import 20,000 metric tons of High Sulphur fuel 1500 Sec. and 20,000 metric tons of Low Sulphur oil 1,500 Sec. considering the urgency of fuel oil to avoid possible interruption to power supply. SSCAPC also had endorsed to the Chairman of the CPC to import the cargo. The following observations are made in this regard.

(i) Bid had been invited by floated bid procedure on 20 and 25 July 2011 but, no offers had been received.

(ii) However, on 25 July 2011 (before the payment of ex gratia payment to CPC and reinstated the registration of the company), the said Singapore based Asian Oil Supplier had sent an offer through email to CPC for the supply of above petroleum products without an invitation for bid. According to the information made available it was revealed that the Commercial Manager of the CPC had invited the said Singapore based Asian Oil Supplier by his e-mail to send an offer for the above procurement via e-mail.

(iii) According to the TEC report of 27 July 2011, the Chairman of the CPC had confirmed the acceptance of their two offers, by his letters dated 25 and 26 July 2011.

(iv) Bid offered by the said Singapore based Asian Oil Supplier had been submitted by email deviating the bidding procedure and no detailed specifications had been submitted to the TEC and also, bid bond had not been submitted. Further, no confirmation had been obtained for the proposed vessel from terminal. Hence, it was observed that no TEC recommendation had been obtained to award the contract to the said company.

(v) Even under above circumstances, the SSCAPC had authorized to import the above product, violating the procurement procedure.

(vi) The specifications had been changed deliberately with effect from 17 July 2011 with the objective of importation of the above products from the said supplier.

(d) Under BK/55/2011 a bid had been awarded to import 20,000 metric tons of Jet A-1, 15,000 metric tons of Gasoline (90 Octane) and 5,000 metric tons of Gasoline (95 Octane) +/ - 5 percent, for delivery during the period of (laycan) 16-17 November 2011. The offer received at the time of opening had been from the said Singapore based Asian Oil Supplier with the following deviations against the bid conditions.

- Tolerance quoted +/- 10 percent was against the requirement of +/- 5 percent.
- Delivery period (laycan) was 19-23 November 2011 which was against the requirement of 16-17 November 2011.

However, SSCAPC had decided to award the bid to the said Singapore based Asian Oil Supplier on 05 November 2011 without taking appropriate action to negotiate with the bidder to bring down the interest rate to 3 percent since the previous bid interest rates were very much lower than the offered interest rate of 4.25 percent.

(e) In certain instances, the main reason given for the rejection of the lower bids was the delays of 2 to 3 days from the Delivery (laycan) date determined by the TEC of the CPC. However, according to the audit test it was observed that in several instances the accepted bidders who were not the lower bidders, had delivered their products at Colombo discharge port later than the dates on which initially the lower bidders had agreed to deliver the product to the CPC.

Bulk import reference Number	Agreed Delivery (Laycan) date	Arrival date	Period of delay
			Days
BK/57/2011	26-27 November 2011	01 December 2011	04
BK/60/2011	05-06 December 2011	09 December 2011	03
BK/63/2011	30-31 December 2011	03 January 2012	03

(f) Under BK/35/2012 a bid had been awarded to import 150,000 barrels of Gas Oil, 120,000 barrels of Gasoline (90 Octane) and 40,000 of Gasoline (95 Octane) +/ - 5 percent, to be delivered during laycan of 01-02 July 2012. The following observations are made in this regard.

(i) Bids had been invited on 05 June 2012 and were closed on 11 June 2012 at 15:00 hours. Out of 73 registered suppliers only one registered supplier (Singapore based Asian Oil Supplier) had offered for bids and 11 suppliers had sent regret letters. TEC had recommended to SSCAPC on 13 June 2012 to award the bid to the Singapore based Asian Oil Supplier. SSCAPC also had decided to award the bid to that supplier on 14 June 2012. Further, the vessels had arrived at Colombo port on 10 July 2012, after a delay of eight (8) days from the laycan date. On that date the stock of Gas Oil (Diesel) was at a very lower level and therefore, that product had been discharged on 10 July 2012 to Kolonnawa Terminal.

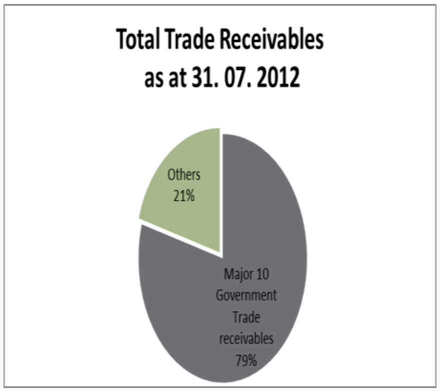
(ii) According to the Lab testing reports it was recommended that the product was in good condition other than the following products of which certain properties were unable to be tested at the CPSTL laboratory. Therefore, the CPC had to depend on the results of the loading port lab testing report and accordingly, the product had been discharged and distributed through 10 regional offices.

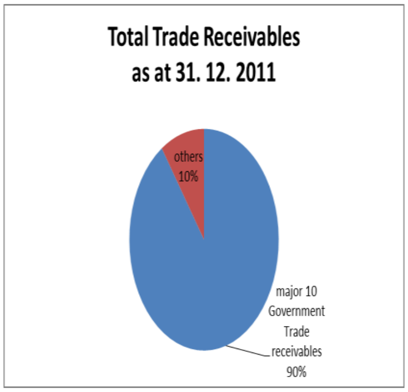
(iii) However, 794 complaints had been received on damage caused to 1,657 motor vehicles and machines and subsequently it had been revealed that the distributed Gas Oil had been a contaminated product. Due to the supply of above inferior quality petroleum products the supplier, the said Singapore based Asian Oil Supplier had been removed from the registered supplier list with effect from 30 August 2012 and the CPC had initiated legal action.

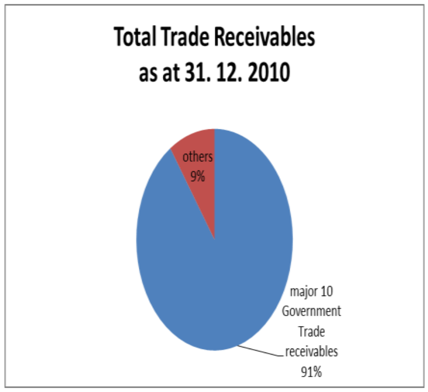
15. Trade receivables

Out of the total trade receivables amounting to Rs. 115,027,437,000 as at 31 December 2011, over 90 percent represented receivables from 10 Government Institutions. The long outstanding balances of them are as follows.

Date	Total amount of trade receivables	Trade receivables from 10 major Government Institutions	Trade receivables from 10 major Government Institutions as a percentage of total trade receivables
	Rs. 000	Rs. 000	Percentage
As at 31 July 2012	88,619,996	70,375,995	79.42
As at 31 December 2011	115,027,437	104,014,449	90.43
As at 31December 2010	77,764,748	70,808,981	91.06







Substantial amounts remained receivable by the CPC over long periods from several leading Government Institutions such as Ceylon Electricity Board (CEB), Sri Lanka Navy, and Sri Lanka Railway for the supply of petroleum product on credit basis. The receivable from the Ceylon Electricity Board as at 31 July 2012 amounting to Rs. 31,715 million and almost equivalent to the credit limit for Letter of Credit allowed to the CPC by two State Banks.

16. Non-compliance with the Decisions of the SSCAPC

Even though the SSCAPC had decided on 24 March 2011 to allow at least ten days of lead time from the date of floating the bid, for the protective bidders to submit their bids, in several instances CPC had not complied with such instructions. Details are in ***Annexure 11***.

H.A.S.Samaraweeera

Auditor General

Annexure 1

Estimated loss on changing general conditions of CPC agreement

Bulk Import No:	Quantity	BL Date	Payments made based on "any 5 day method"	Amount payable based on "around 5 day on BL date method"	Difference	Exchange rate on BL date	Diffrence
	Barrels		USD	USD	USD		Rs.
BK/52/2011	313,992	11.10.22	40,942,211.83	40,297,166.80	645,045.03	110.8612	71,510,466
BK/53/2011	299,914	11.11.09	40,769,136.06	40,412,614.86	356,521.20	110.8612	39,524,368
BK/56/2011	308,070	11.11.23	41,889,924.88	40,005,412.68	1,884,512.20	114.9154	216,559,473
BK/58/2011	309,794	11.11.30	42,124,346.38	40,204,775.01	1,919,571.37	114.6136	220,008,985
BK/59/2011	287,620	11.11.26	39,111,683.54	37,119,303.95	1,992,379.59	114.6136	228,353,797
BK/01/2012	237,967	11.12.28	31,116,261.98	29,902,390.60	1,213,871.38	114.6035	139,113,909
	68,816	11.12.29	8,997,434.78	8,657,471.46	339,963.32	114.6032	38,960,884
BK/09/2012	285,719	12.01.24 12.01.26	38,360,637.69	37,630,011.82	730,625.86	114.6035	83,732,281
Total					**9,082,489.95**		**1,037,764,163**

Annexure 2

Details of tank cleanliness and dry certificates and quality certificates submitted after the loading date

Tender Number	Product	Date of Loaded	Date of Tank Cleanliness & Dry Certificate and Quality Certificate Received
BK/08/2011	Gas oil 0.25%	08 March 2011	17 March 2011
BK/15/2011	Jet - A1	13 May 2011	01 June 2011
BK/42/2011	HSFO 180 CST	07 September 2011	24 October 2011 *
BK/02/2012	HSFO 180 CST	29December 2011	17 January 2012 *
BK/04/2012	HSFO 180 CST	19 December 2011	17 January 2012*
BK/05/2012	Gas oil 0.25% Gasoline 90 UNL	11 January 2012	08 February 2012
BK/41/2012	Gas oil 0.25% Jet A-1	22 July 2012	28 July 2012 ** 09 Augest2012*

* Tank cleanliness report only

** Quality report only

Annexure 3

Delays in receiving of independent inspectors' reports

Tender Number	Date of loaded	Date of discharged	Date of Independent Inspectors reports received	
			At loading port	At discharging port
BK/08/2011	08 March 2011	25-27 March 2011	17 March 2011	04 April 2011
BK/15/2011	13 May 2011	19-24 May 2011	01 June 2011	08 June 2011
BK/42/2011	07 September 2011	14-18 September 2011	24 October 2011	17 November 2011
BK/02/2012	29 December 2011	11-15 January 2012	17 January 2012	30 January 2012
BK/04/2012	19-20 December 2011	30 December 2011- 01 January 2012	20 December 2011	17 January 2012
BK/05/2012	11-12 January 2012	19-20 January 2012	08 February 2012	15 February 2012
BK/41/2012	22 July 2012	30 July 2012- 04 August 2012	Not submitted up to 21 September 2012	Not submitted up to 21 September 2012
BK/14/2012	19 February 2012	04 March 2012	02 March 2012	21 March 2012
BK/38/2012	12 July 2012	25-26 July 2012	13 July 2012	Not submitted

Annexure 4

Tests not conducted at CPSTL laboratory

CPSTL Reference Number	Date	Product	Test method	Properties not tested in CPSTL Laboratory
CPC/12/28	28 May 2012	Gas oil 0.25%MS	ASTM D 524	Carbon Residue Ramsbottom10% residue
CPC/12/28	28 May 2012	Gasoline 90 octane	ASTM D 5580	Benzene
			ASTM D 5580	total aromatics
CPC/12/33	27 June 2012	Gasoline 90 octane	ASTM D 5580	total aromatics
CPC/12/33	27 June 2012	Gasoil 0.25%MS	ASTM D 240	calorific value gross
			ASTM D 240	calorific value net
			ASTM D 524	Carbon Residue Ramsbottom10% residue
CPC/12/30	12 June 2012	Gasoil 0.25%MS	ASTM D 524	Carbon Residue Ramsbottom10% residue
CPC/12/31	21 June 2012	Gasoil 0.25%MS	ASTM D 524	Carbon Residue Ramsbottom10% residue
LIOC/12/04	02 July 2012	Gasoline 90 octane	ASTM D 5580	total aromatics
LIOC/12 /04	02 July 2012	Gas oil 0.25%MS	ASTM D 524	Carbon Residue Ramsbottom10% residue
LIOC/12/05	05 August 2012	Gas oil 0.25%MS	ASTM D 240	calorific value gross
			ASTM D 240	calorific value net
			ASTM D 524	Carbon Residue Ramsbottom10% residue

Annexure 5

Importations which had not been processed

Stock Review Meeting Date	Laycan Date	Product	Quantity
			Mt. Tons
30 March 2011	07-08/05/2011	Gasoline (90 Octane)	15,000
		Auto Diesal	25,000
	09-10/05/2011	Gasoline (92 Octane)	15,000
		Auto Diesel	20,000
		Gasoline (95 Octane)	5,000
24 May 2011	10-11 June 2011	Gasoline 90 octane	15,000
31 May 2011	16-17 June 2011	Gasoline 92	20,000
		Gas oil	20,000
28 October 2011	07-08-Dec 2011	LFO 1500	30,000
29 July 2011	01-02 Sep 2011	LFO 1500	35,000
25 May 2012	21-22 June 2012	Jet A 1	10,000
		Kerosine	5,000
		Gas Oil	25,000
09 April 2012	17-18 May 2012	Gas Oil	40,000 - 60,000
09 March 2012	20-21 April 2012	Gas Oil	40,000 - 60,000
17 Feb 2012	25-26 March 2012	Low Sulphur (1500 Secs)	35,000

Annexure 6

Details of the usage of Muthurajawela Terminal for issuing petroleum products

Month	Gasoline(Octane 90) Total issues CPSTL Liters	Gasoline(Octane 90) Issues From Muthuraja-wela Liters	Gasoline(Octane 90) MU: issue as % of total issues	Gas oil (LAD) Total issues CPSTL Liters	Gas oil (LAD) Issues From Muthuraja-wela Liters	Gas oil (LAD) MU: issue as % of total issues	Kerosene Total issues CPSTL Liters	Kerosene Issues From Muthuraja-wela Liters	Kerosene MU: issue as % of total Issues
2011									
June	61,301,000	6,791,400	11.08	177,703,650	48,100,800	27.07	18,621,920	4,705,800	25.27
July	57,343,716	12,236,400	21.34	203,905,086	42,556,800	20.87	17,363,123	4,484,700	25.83
August	59,471,022		0.00	201,733,615	51,641,700	25.60	17,364,285	4,339,500	24.99
September	60,823,600	15,213,000	25.01	218,992,968	55,535,700	25.36	14,879,720	4,398,900	29.56
October	60,862,079	14,678,400	24.12	199,280,060	37,709,100	18.92	15,147,000	4,019,400	26.54
November	57,472,672	15,345,000	26.70	176,330,220	42,474,300	24.09	13,843,872	4,124,900	29.80
December	64,013,600	17,080,800	26.68	200,899,366	50,008,200	24.89	14,797,220	4,702,500	31.78
2012									
January	63,465,845	17,173,200	27.06	222,841,618	71,775,000	32.21	15,397,000	-	
February	59,241,640	16,599,000	28.02	177,133,675	44,012,100	24.85	11,814,020	3,333,000	28.21
March	66,185,000	18,592,200	28.09	197,269,911	49,820,100	25.25	13,926,400	4,986,300	35.80
April	65,294,030	17,734,200	27.16	133,194,560	36,022,800	27.05	11,619,300	3,861,000	33.23
May	66,289,657	18,285,300	27.58	159,936,185	45,144,000	28.23	12,282,570	4,359,300	35.49
June	66,171,820	18,143,400	27.42	163,452,248	43,998,900	26.92	12,146,922	3,564,000	29.34

Annexure 7

Import of Gasoline (Petrol) - (90 & 92 Octane) – 2011

Shipment	Product Type	B/L Quantity
		Barrels
BK/06/2011	Gasoline (90 UNL)	142,473
BK/11/2011	Gasoline (90 UNL)	121,848
BK/28/2011	Gasoline (90 UNL)	39,813
BK/36/2011	Gasoline (90 UNL)	245,538
BK/43/2011	Gasoline (90 UNL)	243,199
BK/54/2011	Gasoline (90 UNL)	114,053
BK/55/2011	Gasoline (90 UNL)	119,005
BK/57/2011	Gasoline (90 UNL)	119,655
BK/61/2011	Gasoline (90 UNL)	138,450
	Total	**1,284,034**
BK/03/2011	Gasoline (92 UNL)	193,529
BK/05/2011	Gasoline (92 UNL)	20,716
BK/09/2011	Gasoline (92 UNL)	19,285
BK/13/2011	Gasoline (92 UNL)	10,554
BK/17/2011	Gasoline (92 UNL)	19,278
BK/22/2011	Gasoline (92 UNL)	27,274
BK/26/2011	Gasoline (92 UNL)	28,958
	Total	**319,594**

Annexure 8

IMPORT OF REFINED PETROLEUM PRODUCTS OUTTERN LOSS - 2011

SHIPMENT NO	SUPPLIER	PRODUCTS	B/L QUANTITY BBLS	OUTTURN QUANTITY BBLS	DIFFERENCE BBLS	ALLOWED PRESENTAGE 0.50%	OUTTERN LOSS BBLS	DES PRICE PER BBLS	OUTTERN LOSS US$	B/L DATE EXCHANG RATE	OUTTERN LOSS RS
BK/10/2011	GLENCORE	GAS OIL (0.25% S)									
(180 DAYS)	S'PORE	JET A-1	156,981	155,557	1,424	785	639	142.322	90,957.28	111.012	10,097,359

IMPORT OF REFINED PETROLEUM PRODUCTS OUTTERN LOSS - 2011 RS 10,097359

IMPORT OF REFINED PETROLEUM PRODUCTS OUTTERN LOSS - 2012

SHIPMENT NO	SUPPLIER	PRODUCTS	B/L QUNTITY BBLS	OUTTURN QUANTIY BBLS	DIFFERENCE BBLS	ALLOWED PRESENTAGE 0.50%	OUTTERN LOSS BBLS	DES PRICE PER BBLS	OUTTERN LOSS US$	B/L DATE EXCHANG RATE	OUTTERN LOSS RS
BK/02/2012	VITOL	HSFO 180 CST	244,820	242,399	2,421	1,224	1,197	119.84	143,436.41	114.604	16,438,315
	S'PORE										

IMPORT OF REFINED PETROLEUM PRODUCTS OUTTERN LOSS - 2012 RS 16,438,315

TOTAL OUTTERN LOSS RS.26,535,673 26,535,673

Annexure 9

Demurrages claimed by suppliers for the year 2011

BK Reference	Name of the Vessel	Amount payable
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		(US$)
BK\10\2011	M.T. Alpine Mea	42,762.50
BK/25/2011	M.T. Tower Bridge V42	13,810.76
BK/35/2011	M.T. Tower Bridge V44	28122.56
BK/38/2011	M.T. FPMC 19	27,052.08
BK/39/2011	M.T. Alabra	29171.52
BK/43/2011	M.T. Pacific Crystal	15193.75
NN/01/2011	M.T. Future Prosperity	8,400.00
NN/03/2011	M.T. Ocean Winner	21,688.89
BK/44/2011	M.T. Tower Bridge V45	19,425.00
BK/48/2011	M.T. Gold Express	74,322.22
BK/42/2011	M.T. East Siberian Sea	6,287.50
BK/51/ 2011	M.T. Diana	5,666.10
BK/58/ 2011	M.T. Pacific Ruby	111,650.01
BK/40/ 2011	M.T. Jag Pankhi	74,593.75
BK/22/ 2011	M.T. Jag Pahel	35,036.45
BK/28/ 2011	M.T. Jag Pankhi	16,076.04
BK/15/ 2011	M.T.Ardmore Seafarer	35,925.00
BK/19/ 2011	M.T.SwarnaPushp	22,808.33
BK/29/ 2011	M.T. Laptev sea	11,119.79
BK/34/2011	M.T. FPMC 19	41,225.00
BK/36/ 2011	M.T. Jag Pankhi	73,168.75
BK/53/ 2011	M.T. CSC Friendship	32,255.21
BK/63/2011	M.T. Cartagena	49,632.50
TOTAL		**795,393.71**

Demurrages claimed by suppliers for the year 2012

BK Reference	Name of the Vessel	Amount payable
		(US$)
BK/01/2012	M.T. Chang Hang GuangRong	39,282.11
BK/02/2012	M.T. Sea King	13,388.88
BK/11/2012	M.T. High Saturn	35,850.00
BK/21/2012	M.T. UACC IBN AL ATHEER	35,543.75
BK/24/2012	M.T. Astral Express	26,629.87
BK/29/2012	M.T. Gulf Muttrah	2,475.00
BK/30/2012	M.T. Torgovy Bridge	8,783.33
BK/32/2012	M.T. Miss Benedetta	5912.49
BK/38/2012	M.T. Torm Laura	31,366.67
BK/39/2012	M.T. East Siberian Sea	21,072.92
BK/40/2012	M.T. Laptev Sea	22,211.11
BK/41/2012	M.T. Unique Fidelity	44,137.00
BK/44/2012	M.T.CSC BRAVE	67,031.25
BK/47/2012	M.T. BRITISH INTEGRITY	202,288.00
BK/49/2012	M.T.UNIQUE FIDELITY	11,893.75
BK/51/2012	M.T.FREJA BALTIC	58,932.29
BK/58/2012	M.T. CSC RISING SUN	100,068.89
TOTAL		**726,867.31**

Annexure 10

VESSEL ARRIVALS DELAY - 2011

SERIAL NO	SHIPMENT NO	PRODUCTS	SUPPLIER	VESSEL	DISCHARGE PORT	DELIVERY LAYCAN AT COLOMBO	B/L DATE	ARRIVAL DATE	DELAY PERIOD/ DAYS
1	BK/01/2011 (180 DAYS)	GAS OIL (0.25% S) GAS OIL (0.25% S)	GLENCORE S'PORE	RAVNANGER	SPM MUTHURAJAWELA	15-16/01/2011	14/01/2011 17/01/2011	23/01/2011	7
2	BK/02/2011 (180 DAYS)	JET A-1	GLENCORE S'PORE	MEGACORE HIBISCUS	DOLPHIN PIER	17-18/01/2011	21/01/2011	26/01/2011	8
3	BK/11/2011	GAS OIL (0.25% S) GASOLINE (90 UNL)	BB ENERGY S'PORE	NAVIG8 STEALTH	SPM MUTHURAJAWELA	28-29/04/2011	18/04/2011 22/04/2011	30/04/2011	1
4	BK/13/2011	GAS OIL (0.25% S) GASOLINE (92 UNL)	BB ENERGY S'PORE	NAVIG8 FIDELITY	DOLPHIN PIER	02-03/05/2011	28/04/2011	04/05/2011	1
5	BK/14/2011	GAS OIL (0.25% S) JET A-1	RELIANCE INDIA	SALAC GRIVA	SPM MUTHURAJAWELA	03-04/05/2011	02/05/2011	06/05/2011	2
6	BK/17/2011 (FOB)	GAS OIL (0.25% S) GASOLINE (92 UNL)	ENOC S'PORE	AKROTIRI	DOLPHIN PIER	10-11/06/2011	07/06/2011 08/06/2011	16/06/2011	**5**
7	BK/24/2011 (TERM 3)	GAS OIL (0.25% S)	ENOC S'PORE	JAG PANKHI	SPM MUTHURAJAWELA	21-23/06/2011	21/06/2011	26/06/2011	3
8	BK/25/2011 (TERM 4)	GAS OIL (0.25% S)	ENOC S'PORE	TOWER BRIDGE	SPM MUTHURAJAWELA	03-04/07/2011	26/06/2011	05/07/2011	1
9	BK/27/2011 (TERM 5)	GAS OIL (0.25% S)	ENOC S'PORE	TOWER BRIDGE	SPM MUTHURAJAWELA	03-04/07/2011	12/7/2011	19/07/2011	15
10	BK/32/2011 (TERM 8)	GAS OIL (0.25% S)	ENOC S'PORE	PACIFIC CRYSTAL	SPM MUTHURAJAWELA	07-08/08/2011	02/08/2011	10/08/2011	**2**
11	BK/35/2011 (TREM 9)	GAS OIL (0.25% S)	ENOC S'PORE	TOWER BRIDGE	SPM MUTHURAJAWELA	15-16/08/2011	10/08/2011	17/08/2011	1
12	BK/36/2011	GAS OIL (0.25% S) GASOLINE (90 UNL)	RELIANCE INDIA	JAG PANKHI	DOLPHIN PIER	20-21/08/2011	18/08/2011	22/08/2011	1
13	BK/39/2011 (TERM 10)	GAS OIL (0.25% S)	ENOC S'PORE	ALABRA	DOLPHIN & SPM	25-26/08/2011	21/08/2011	27/08/2011	1
14	BK/40/2011	GAS OIL (0.25% S) JET A-1	RELIANCE INDIA	JAG PANKHI	DOLPHIN & SPM	07-08/09/2011	08/09/2011	13/09/2011	5
15	BK/42/2011	HSFO 180 CST	ESSAR OIL INDIA	EAST SIBERIAN SEA	DOLPHIN PIER	13-14/09/2011	07/09/2011	19/09/2011	5

16	BK/43/2011	GAS OIL (0.25% S)	VITOL	PACIFIC	DOLPHIN & SPM	28-29/09/2011	22/09/2011	03/10/2011	4
		GASOLINE (90 UNL)	S'PORE	CRYSTAL			25/09/2011		
17	BK/45/2011	LSFO 180 CST	PETROBRAS	BERING	SPM	20-25/09/2011	19/09/2011	24/09/2011	1
			S'PORE	SEA	MUTHURAJAWELA				
18	BK/49/2011	LSFO 180 CST	PETROBRAS	MAERSK	SPM	10-11/10/2011	09/10/2011	14/10/2011	**3**
			S'PORE	REMLIN	MUTHURAJAWELA				
19	BK/53/2011	GAS OIL (0.25% S)	PV OIL	CSC	DOLPHIN & SPM	13-14/11/2011	09/11/2011	15/11/2011	1
	(GO TERM 2)		S'PORE	FRIENDSHIP					
20	BK/54/2011	GAS OIL (0.25% S)	RELIANCE	SWARNA	SPM	21-22/11/2011	18/11/2011	23/11/2011	1
		GASOLINE (90 UNL)	INDIA	PUSHP	MUTHURAJAWELA				
21	BK/55/2011	JET A-1	VITOL	PACIFIC	DOLPHIN PIER	16-17/11/2011	16/11/2011	22/11/2011	5
		GASOLINE (90 UNL)	S'PORE	JADE			15/11/2011		
		GASOLINE (95 UNL)							
22	BK/56/2011	GAS OIL (0.25% S)	PV OIL	CSC	SPM	18-19/11/2011	23/11/2011	29/11/2011	10
			S'PORE	PROGRESS	MUTHURAJAWELA				
23	BK/57/2011	GAS OIL (0.25% S)	VITOL	FPMC 19	DOLPHIN PIER	26-27/11/2011	21/11/2011	28/11/2011	1
		GASOLINE (90 UNL)	S'PORE		COLOMBO		22/11/2011		
24	BK/58/2011	GAS OIL (0.25% S)	PV OIL	PACIFIC RUBY	DOLPHIN & SPM	01-02/12/2011	30/11/2011	07/12/2011	5
			SINGAPORE		COLOMBO				
25	BK/60/2011	HSFO 180 CST	VITOL	NORIENT	DOLPHIN PIER	05-06/12/2011	03/12/2011	09/12/2011	3
			S'PORE	SATURN	COLOMBO				
26	BK/61/2011	GAS OIL (0.25% S)	VITOL	USMA	DOLPHIN PIER	20-21/12/2011	12/12/2011	23/12/2011	2
		GASOLINE (90 UNL)	S'PORE				17/12/2011		
		GASOLINE (95 UNL)					16/12/2011		
27	BK/63/2011	GAS OIL (0.25% M.S.	VITOL	CARTAGENA	SPM	30-31/12/2011	23/12/2011	03/01/2012	3
		JET A-1	S'PORE		MUTHURAJAWELA		27/12/2011		

VESSEL ARRIVLS DELAY - 2012

SERIAL NO	SHIPMENT NO	PRODUCTS	SUPPLIER	VESSEL	DISCHARGE PORT	DELIVERY LAYCAN AT COLOMBO	B/L DATE	ARRIVAL DATE	DELAY PERIOD/ DAYS
1	BK/01/2012 (GO TERM 6)	GAS OIL (0.25% S)	PV OIL S'PORE	CHANG HANG GUANG RONG	SPM MUTHURAJAWELA	04-05/01/2012	28/12/2011 29/12/2011	07/01/2012	2
2	BK/03/2012	LSFO 180 CST	VITOL S'PORE	SEA SPIRIT	SPM MUTHURAJAWELA	12-18/01/2012	09/01/2012	19/01/2012	1
3	BK/05/2012	GAS OIL (0.25% S) GASOLINE (90 UNL)	GUNVOR S'PORE	JASMINE EXPRESS	DOLPHIN PIER	10-11/01/2012	12/01/2012	18/01/2012	7
4	BK/07/2012	GAS OIL (0.25% S) JET A-1	DAEWOO KOREA	ATLANTIC ENOVATOR	DOLPHIN PIER	20-21/01/2012	09/01/2012 16/01/2012 18/01/2012	23/01/2012	2
5	BK/09/2012 (GO TERM 7)	GAS OIL (0.25% S)	PV OIL S'PORE	YUE CHI	SPM MUTHURAJAWELA	30-31/01/2012	24/01/2012 26/01/2012	05/02/2012	5
6	BK/11/2012	GAS OIL (0.25% S) GASOLINE (90 UNL) GASOLINE (95 UNL)	VITOL S'PORE	HIGH SATURN	DOLPHIN PIER	09-10/02/2012	02/02/2012 06/02/2012 06/02/2012	13/02/2012	3
7	BK/13/2012	GAS OIL (0.25% S)	VITOL S'PORE	UZAVA	SPM MUTHURAJAWELA	23-24/02/2012	17/02/2012	25/02/2012	1
8	BK/14/2012	GAS OIL (0.25% S) GASOLINE (90 UNL)	VITOL S'PORE	GOLD EXPRESS	SPM MUTURAJAWELA	28-29/02/2012	19/02/2012 25/02/2012	04/03/2012	4
9	BK/19/2012	GAS OIL (0.25% S) GAS OIL (0.25% S) GASOLINE (90 UNL)	ENOC S'PORE	MAERSK MAYA	SPM MTHURAJAWELA	25-26/03/2012	17/03/2012 20/03/2012 18/03/2012	28/03/2012	2
10	BK/20/2012	HSFO 180 CST	VITOL S'PORE	CHEMTRANS PETRI	DOLPHIN PIER	03-04/04/2012	29/03/2012	06/04/2012	2
11	BK/23/2012 (1ST CARGO)	GAS OIL (0.25% S)	PV OIL S'PORE	CSC PROGRESS	SPM MUTHURAJAWELA	29-30/04/2012	21/04/2012 22/04/2012 25/04/2012	01/05/2012	1
12	BK/24/2012	GAS OIL (0.25% S) KEROSENE JET A-1	BP S'PORE	ASTRAL EXPRESS	DOLPHIN PIER	21-22/04/2012	19/04/2012 18/04/2012 16/04/2012	25/04/2012	3
13	BK/25/2012	LSFO 180 CST	FPP U.A.E.	LION	SPM MUTHURAJAWELA	10-11/05/2012	06/05/2012	14/05/2012	3
14	BK/28/2012	GAS OIL (0.25% S) GASOLINE (90 UNL) GASOLINE (95 UNL)	VITOL S'PORE	CHANG HANG XIANG FENG	DOLPHIN PIER & SPM	23-24/05/2012	18/05/2012 17/05/2012 19/05/2012	25/05/2012	1
15	BK/35/2012	GAS OIL (0.25% S) GASOLINE (90 UNL) GASOLINE (95 UNL)	VITOL S'PORE	GULF MUTTRAH	DOLPHIN PIER	01-02/07/2012	25/06/2012 03/07/2012 03/07/2012	11/07/2012	9

16	BK/38/2012	GAS OIL (0.25% S)	VITOL	TORM	SPM	18-19/07/2012	13/07/2012	24/07/2012	5
		GASOLINE (90 UNL)	S'PORE	LAURA	MUTHURAJAWELA		15/07/2012		
17	BK/39/2012	HSFO 180 CST	VITOL	EAST	DOLPHIN PIER	21/07/2012	14/07/2012	23/07/2012	2
			S'PORE	SIBERIAN					
				SEA					
18	BK/40/2012	HSFO 180 CST	VITOL	LAPTEV SEA	SPM	01/08/2012	31/07/2012	08/08/2012	**7**
		LSFO 180 CST	S'PORE		MUTHURAJAWELA		30/07/2012		
19	BK/41/2012	GAS OIL (0.25% S)	SWISS	UNIQUE	DOLPHIN PIER	27/07/2012	21/07/2012	30/07/2012	3
		GAS OIL (0.25% S)	S'PORE	FIDELITY			21/07/2012		
		GASOLINE (90 UNL)					22/07/2012		
20	BK/43/2012	GAS OIL (0.25% S)	BB ENERGY	UNIQUE	SPM/DOLPHIN	11/08/2012	06/08/2012	17/08/2012	6
		JET A-1	S'PORE	DEVELOPER			08/08/2012		
21	BK/46/2012	LSFO 180 CST	BAKRI	EAST	SPM	11/08/2012	10/08/2012	22/08/2012	11
			SAUDI	SIBERIAN	MUTHURAJAWELA				
			ARABIA	SEA					
22	BK/47/2012	GAS OIL (0.25% S)	SWISS	BRITISH	DOLPHIN PIER	27/08/2012	21/08/2012	30/08/2012	3
		JET A-1	S'PORE	INTEGRITY			15/08/2012		
23	BK/53/2012	GAS OIL (0.25% S)	BUMI SIAK	UZAVA	DOLPHIN PIER	15-16/09/2012	08/09/2012	17/09/2012	1
		GASOLINE (90 UNL)	INDONESIA				10/09/2012		
		GASOLINE (95 UNL)					11/09/2012		

Annexure 11

Non-compliance with the Decisions of the SSCAP

Bid Number	Date of calling for invitation	Date of closing bids	Number of days allowed
BK/11/2011	29 March 2011	05 April 2011	07
BK/13/2011	06 April 2011	11 April 2011	05
BK/37/2011	05 August 2011	10 August 2011	05
BK/48/2011	21 September 2011	27 September 2011	06
BK/07/2012	21 December 2012	29 December 2012	08
BK/12/2012	25 January 2012	31 January 2012	06
BK/31/2012	15 May 2012	22 May 2012	07
BK/33/2012	25 May 2012	30 May 2012	05
BK/43/2012	10 July 2012	17 July 2012	07