

**Report of the Auditor General on the Accounts of Head 115 – Ministry of Petroleum Industries  
– Year 2014**

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The general information on the accounts of the Ministry is included in paragraph 1 and 2 of this Report and the Audit Observations on the Head are included in paragraph 3.

**1. Scope of Audit**

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The audit of the Appropriation Account, the Revenue Account and the Reconciliation Statement including the financial records, reconciliation statement, books, registers and other records of the Ministry of Petroleum Industries for the year ended 31 December 2014 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Chief Accounting Officer of the Ministry on 31 August 2015. The audit observations, comments and findings on the accounts and the reconciliation statement were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

**1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements.**

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The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud and error.

**2. Accounts**

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**2.1 Appropriation Account**

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**Total Provision and Expenditure**

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The total net provision made for the Ministry amounted Rs.167.55 million and out of that, a sum of Rs.162.51 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Ministry amounted to Rs.5.04 million or 3.01 per cent of the net provision. Details appear below.

Expenditure	As at 31 December 2014			Savings as a Percentage of the Net Provision
	Net Provision	Utilization	Savings	
	Rs.Millions	Rs.Millions	Rs.Millions	
Recurrent	133.50	132.18	1.32	0.99
Capital	34.05	30.33	3.72	10.93
Total	167.55	162.51	5.04	3.01

## 2.2 Revenue Account

### Estimated and Actual Revenue

The Ministry had not prepared estimates of revenue under the Revenue Code 20.03.02.21 for the year 2014 but revenue totalling Rs.21.4 million had been collected during the year under review.

## 2.3 Advance Account

### Advances to Public Officers Account

#### Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account of the Ministry and the actual amounts are given below.

Item Number	Expenditure		Receipts		Debt Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
11501	3.0	2.6	1.8	2.5	12.5	9.6

## 2.4 Imprest Account

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The balance of the Imprest Account No.7002/0000/00/0336/0014/000 of the Ministry as at 31 December 2014 amounted to Rs.896,450.

## 2.5 Audit Observation

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According to the Financial Records and Books for the year ended 31 December 2014, it was objective that subject to the observations appearing in the Management Audit Report referred to in paragraph 1.1, the Appropriation Account, the Revenue Account and the Reconciliation Statement of the Ministry of Petroleum Industries have been prepared satisfactorily. The material and important audit observations out of the observations included in the Management Report appear in paragraph 3 below.

## 3. Head 115 – Ministry of Petroleum Industries

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### 3.1 Maintenance of Registers and Books

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The Ministry had not maintained certain registers shown below, while certain other registers had not been maintained in the proper and updated manner.

<b>Type of Register</b>	<b>Relevant Register</b>	<b>Observation</b>
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List of Motor Vehicles	Financial Regulation 1647(e)	Not maintained
Register of Losses	Financial Regulation 110	Not updated
Log Books for Official Motor Vehicles	Financial Regulation 1645(a)	Not updated

### 3.2 Lack of Evidence for Audit

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The following observations are made.

- (a) The bills, receipts, renewal notices, etc, relating to 3 transactions valued at Rs.1,275,124 executed by the Ministry in the year 2014 had not been furnished for audit.

- (b) Even though expenditure on fuel amounting to Rs.2,015,711 had been incurred in the year 2014 for 9 pool motor vehicles, the Daily Running Charts, Monthly Performance Summaries and the reports on tests of fuel consumption required for vouching that expenditure had not been furnished to Audit.
- (c) A record of signatures or the adequate evidence in support of participation of the officers of the Ministry who participated in the Workshop on Project Management conducted by the Ministry in collaboration with the Sri Lanka Foundation Institute had not been furnished to Audit.

### **3.3 Appropriation Account**

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The following observations are made in connection with in Appropriation Account.

#### **(a) Budgetary Variance**

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Excess provisions had been made for 3 Objects and as such the savings, after the utilization of provisions, ranged between 24 per cent to 63 per cent of the net provision relating to the respective Objects.

#### **(b) Liabilities Incurred Exceeding Provisions**

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Even though liabilities exceeding the provision cannot be incurred in terms of the Financial Regulation 94(1), liabilities exceeding the savings after the utilization of provisions made under 9 Objects under the Head by Rs.745,092 had been incurred.

### **3.4 Imprest Account**

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The following observations are made.

- (a) Contrary to the provision in the Financial Regulation 371, Ad hoc Sub-imprests totalling Rs.154,000 had been issued in 12 instances to 04 officers.
- (b) Even though the Ad hoc Sub-imprests obtained should be settled immediately after the completion of the purpose in term of the Financial Regulation 371, the

Ad hoc Sub-impressts had been settled after delays ranging from 22 days to 56 days after the completion of the purposes.

### **3.5 Revenue Account**

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The function of the preparation of revenue estimates collection of revenue, accounting and presentation of accounts under the Revenue Code 20.03.02.21, had been devolved on the Secretary to the Ministry as the Revenue Accounting Officer. The following deficiencies were observed at the audit test carried out relating that Revenue Code.

- (a) Even though responsibility of estimating the revenue collecting and reporting relating to the Ministry of Petroleum Industries as the Revenue Accounting Officer in term of the Circular No.01/2002(xviii) dated 29 April 2014 of the Fiscal Policy and Economic Affairs, the estimate of revenue had not been prepared accordingly. Nevertheless, revenue amounting to Rs.21,384,958 had been collected in the year 2014.
- (b) Even though the agreements entered into between the Ceylon Petroleum Corporation and M/S Hyrax Oil SDN, BHS Malaysia (2008-2013) on the import of lubricants had expired on 17 October 2013, the Ceylon Petroleum Corporation had not taken action to enter into a new agreement even by 22 May 2015, the date of audit.

### **3.6 Assets Management**

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The following deficiencies were observed during the course of the audit test checks carried out relating to the assets of the Ministry.

#### **(a) Conduct of Annual Boards of Survey**

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The Board of Survey for the year 2014 had recommended that unsalable goods valued at Rs.58,161 should be sold and goods valued at Rs.23,610 should be destroyed. The Ministry had not taken any action whatsoever even by 31 December 2014 in connection with the goods valued at Rs.76,115 in respect of

the year 2012 and goods valued at Rs.122,156 in respect of the year 2013 stated as unusable.

**(b) Irregular use of Assets belonging to other Institutions.**

It was observed during the course of audit test checks that the Ministry had used certain assets belonging to other institutions without formal approval. Details appear below.

- (i) Five Motor Vehicles belonging to the Ceylon Petroleum Corporation had been released to the Ministry. The Ministry had spent a sum of Rs.2,364,603 during the year under review as the maintenance expenses of those 5 motor vehicles while the Corporation had spent a sum of Rs.806,563 for fuel.
- (ii) A Coordinating Secretary of the Minister had used a motor vehicle belonging to the Ceylon Petroleum Corporation from time to time during the year under review.

**3.7 Non-compliances**

**Non-compliance with Laws, Rules, Regulations etc.**

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

<b>Reference to Laws, Rules and Regulations</b>	<b>Value</b>	<b>Non-compliance</b>
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	Rs.	
<b>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>		
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Financial Regulation 1646	-	The originals of the Daily Running Charts and the Monthly Performance Summaries of 9 pool Motor Vehicles in respect of the 18 months period from 01

January 2014 to 30 June 2015 had not been furnished to audit.

**(b) Circulars of the Presidential Secretariat**

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**Circular No.CA/1/17/1 of 14 May 2010**

- (i) Paragraph 3.1 - Even though only 3 Motor Vehicles are allowed for the use and Security of the Minister and the Minister had used 5 Motor Vehicles of the Government.
- (ii) Paragraph 3.3 - Seven motor vehicles belonging to the Ceylon Petroleum Corporation had been deployed for use by the Minister and Deputy Minister without the prior approval of the Ministry of Finance and Planning.
- (iii) Paragraph 3.4 - The officers of the Minister's office who use official motor vehicles or obtained the transport allowance had also used pool motor vehicles.

**(c) Public Administration Circulars**

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 Paragraph 2.11 of the Circular No.41/90 of 10 October 1990

- The fuel consumption of the motor vehicles of the Ministry had not been carried out once in 6 months over a period exceeding 3 years.

**(d) Circulars of the Department of External Resources**

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 Circular Letter No.HRD/CHI/S/194 of 16 April 2013

- A report on the training acquired by an officer of the Ministry who had participated

in a Workshop conducted in Singapore had not been furnished to the Department of External Resources of the Ministry of Finance and Planning and the Secretary to the line Ministry.

**(e) National Budget Circular**  
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Paragraph 01 of the Circular  
No.146 of 29 April 2010

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Action had not been taken to maintain the Office of the Minister, the Officer of the Deputy Minister and the Office of the Secretary to the Ministry in the same premises.

**(f) Pensions Circulars**  
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Circular No.2014/01 of 10  
January 2014

59,072

A retired Government Officer who had functioned as a Management Assistant of the Minister's Office had been paid the Cost of Living Allowance in addition to the Salary and the Pension.

**3.8 Implementation of Projects from Local Financing**  
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Instances revealed during the course of audit test checks of projects abandoned without commencing, Projects abandoned without completing and the Project delays are given below.

- (a) As the Sapugaskanda Petroleum Refinery 43 years old had been operating at a very low efficiency, it required modernization of high level with high quality technological accessories to enable refining of any kind of crude oil available at present. The Modernization and Expansion Project required for this purpose had not been commenced even by 31 July 2015. In view of this situation Sri Lanka had been deprived of the favorable conditions such as the consolidation of

energy security, saving foreign exchange to the country, minimization of the problems relating to quality of refined oil imported, minimization of the excessive cost of importing finished products, obtaining the economic benefits from refining imported crude oil, by refining locally the possibility of using the low cost heavy crude oil and improvement of the operating profitability.

- (b) The pipeline systems for the discharge of imported Petroleum Products which are 43 years and 70 years old are being used inefficiently beyond the effective useful life of 25 years for the supply of 2/3 of the Petroleum requirements of the country. As the discharge through such run-down pipelines is dangerous, it had been expected to implement the project for the reconstruction of the Pipeline system laid across the country expeditiously. Nevertheless it had not been commenced even by 31 July 2015. In view of this situation the country had been deprived of the favorable benefits accruing from the efficient transport of petroleum, ensuring the quality of petroleum supplied to the consumer, meeting the increasing future demand, minimization of financial loss from the waste of petroleum and minimization of the maintenance cost of run-down pipelines.
- (c) A technical study costing Rs.5 million had been carried out in the year 2010 for the construction of the underground oil pipeline system of the Bandaranaike International Airport at a cost of Rs.1,000 million. The Ministry had not taken action for the implementation of the recommendations of the study even by 30 November 2015.

### **3.9 Transactions of Contentious Nature**

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Certain transactions executed by the Ministry were of contentious nature. The particulars of several such transactions revealed during the course of audit test checks are given below.

- (a) Overtime, holiday pay and travelling expenses totalling Rs.3,872,652 had been paid without the confirmation of the arrival and departure of the officers of the

Minister's and the Deputy Minister's Offices. The evidence in support of the arrival and departure of those officers had not been furnished to Audit.

- (b) Provision of Rs.360,000 had been made in respect of the year for the Object on Training of the Staff of the Ministry Office. That provision had been utilized for the training of 20 officers of the Ceylon Petroleum Corporation and the Ceylon Petroleum Storage Terminal Company. Action had not been taken for the recovery of the money spent by the Ministry from those institutions.

### **3.10 Irregular Transactions**

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A diesel motor vehicle had been allocated to a Public Relations Officer of the Minister's Office and a monthly diesel allowance of Rs.25,724 should have been paid in that connection. Instead of paying the diesel allowance, the Ministry had paid the monthly petrol allowance of Rs.35,316 for 9 months. Out of the overpayment made amounting to Rs.21,176 had not been recovered even by 30 October 2015.

### **3.11 Losses and Damage**

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The following observations are made in connection with the losses and damage revealed during the course of audit test checks.

- (a) A sum of Rs.99,000 had been paid to the Sri Lanka Foundation Institute in connection with the participation of an Acting Additional Secretary of the Ministry participating in a Training Course organized by that Institute and held in Bangkok, Thailand. That officer had not participated in the Training Course and the Ministry had not taken action for the recovery of the money paid.
- (b) Damage had been caused to 2 Motor Vehicles the Ministry due to accidents in the year 2014 and the Ministry had spent a sum of Rs.7,307,949 for carrying out repairs to the damage and a sum of Rs.6,529,472 only had been received as insurance indemnity. The Ministry had not taken action on the losses in terms of the Financial Regulations 104 to 109.

- (c) Even though the Minister and the Deputy Minister and the Staff of the Offices of the Minister and the Deputy Minister had moved out from service, 5 categories of goods identified, supplied from the provisions of the Ministry had not been valued at Rs.333,900 and 28 goods of 10 categories, the value of which had not been identified, had not been returned to the Ministry.

### **3.12 Uneconomic Transactions**

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The particular transactions entered in to devoid of economy revealed during the course of audit test checks are given below.

- (a) A private building adjoining this premises of the Ministry of Petroleum Industries had been obtained on rent for the Office of this Deputy Minister and the Ministry had spent a sum of Rs.5,484,254 as the rent of that building for the year 2014. The Deputy Minister and his staff had not functional his office in that building. The Deputy Minister and the Office of the Deputy Minister had been functioned in a part of the building belonging to the Ceylon Petroleum Corporation and the Ministry had paid a sum of Rs.10,011,545 to the Corporation in that connection in the year 2014. Accordingly, the expenditure of Rs.5,484,254 incurred on the private building taken on rent had become an uneconomic expenditure.
- (b) The motor vehicle imported at a cost of Rs.6,694,263 in September 2014 for the former Deputy Minister had not been cleared during the specified period by paying Rs.1,714,272 as the local agents charges. Accordingly, a further sum of Rs.230,581 had been paid to the Sri Lanka Ports Authority as demurrage charge
- (c) The Ministry had paid a sum of Rs.1,458,823 to a State Company by 31 March 2014 for the installation of Wi-fi Internet facilities in the Ministry building premises. The Dialog 44 Wi-fi cordless Internet facility previously obtained by the Ministry had not been disconnected and as such a sum of Rs.61,278 had to the paid to that private company for a period of 14 months.

### 3.13 Management Weaknesses

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The following weaknesses were observed during the course of audit test checks.

- (a) According to the List of names of the officers of the Ministry who had participated in a Workshop for Training of Officers conducted by the Ministry in collaboration with the Sri Lanka Foundation Institute during the year 2014 only 3 officers had participated in the Workshop. Nevertheless, payment had been made for 36 officers. Accordingly a sum of Rs.54,000 had been overpaid for 3 officers at the rate of Rs.18,000 per officer.
- (b) Out of the provision of Rs.1,800,000 made for the year 2014 for the training of the Ministry Staff, 30.56 per cent or Rs.550,000 had been spent on the Additional Secretary (Administration) of the Ministry who had participated in the International Program on Project Management. Twenty per cent of the Provision available or Rs.360,000 had been utilized for the training of the officers of external institutions while 5.55 per cent or Rs.99,900 had been spent on a programme for which no officers had participated. Accordingly, 42.47 per cent of the Provision or Rs.764,450 only had been utilized for the training of the other staff of the Ministry.
- (c) The Motor Vehicles Log Books had not been updated by recording repairs to motor vehicles, accidents to motor vehicles and other particulars such as changing of tyres and tubes, dates of servicing of motor vehicles. The Register of Motor Vehicles of the Ministry had also not been maintained.
- (d) Records of handover of spare parts removed from repaired motor vehicles to the Stores or the courses of action taken in that connection had not been maintained.
- (e) The Ministry had spent a sum of Rs.5,404,849 in the year 2014 for carrying out repairs to 22 motor vehicles. The audit test checks carried out in the connection revealed that any evidence to indicate that the vehicles were subjected to a

check by an independent person or institution possessing special knowledge and obtained an estimate before referring for repairs and that a certification of satisfactory completion of repairs had not been obtained after carried out repairs.

### 3.14 Human Resources Management

#### (a) Approved Cadre and Actual Cadre

The position of the Cadre as at 31 December 2014 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	15	13	02
(ii) Tertiary Level	02	01	01
(iii) Secondary Level	50	40	10
(iv) Primary Level	26	21	05
(v) Others (Casual/ Temporary/ Contract Basis)	03	02	01
<b>Total</b>	<b>96</b>	<b>77</b>	<b>19</b>
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#### (b) Human Resources Irregularly released to Other Parties

Two members of the operating staff recruited in the year under review under the Ministry Project 2- Ministry Administration and Establishment Services had been released irregularly for the Media Service of the Ministry Office under Project 01 and a sum of Rs.472,150 out of the Provisions under Project 02 of the Ministry had been spent for them.