

Report of the Auditor General on Head 150– Ministry of Petroleum Resources Development - Year 2016

The audit of the Appropriation Account, and the Reconciliation Statements including the financial records, books, registers and other records of the Head 150 –Ministry of Petroleum Resources Development for the year ended 31 December 2016 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 Secretary to the Ministry on 09 August 2017. The audit observations, comments and findings on the accounts and the reconciliation statements 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 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

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, 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 or error.

2. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Ministry amounted to Rs. 442.77 million and out of that, a sum of Rs. 405.76 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provision made for the Ministry amounted to Rs. **37.01 million or 8.36 per cent. Details appear below.**

| As at 31 December 2016 | | | | |
|------------------------|---------------|--------------|--------------|--|
| Expenditure | Net Provision | Utilization | Savings | Savings as a Percentage of Net Provision |
| | Rs. Millions | Rs. Millions | Rs. Millions | |
| Recurrent | 214.67 | 213.50 | 1.17 | 0.54 |
| Capital | 228.10 | 192.26 | 35.84 | 15.71 |
| Total | 442.77 | 405.76 | 37.01 | 8.36 |

2.2 Revenue Account

Estimated and Actual Revenue

The ministry had estimated amounting to Rs.26.14 million for the year 2016 for a revenue code and amounting to Rs.32.27 million had collected. It had been 123.45 per cent of the estimated revenue. Details appear below.

As at 31 December 2016

| Revenue Code | Estimated Revenue | Actual Revenue | Excess | Excess as a Percentage of Net Provision |
|--------------|-------------------|----------------|--------------|---|
| | Rs. Millions | Rs. Millions | Rs. Millions | |
| 20.03.02.21 | 26.14 | 32.27 | 6.13 | 23.45 |

2.3 Advances to Public Officers Account

Limits Authorized by Parliament

The limits were imposed authorized by Parliament for the Advances to Public Officers Account Item No.15001 relating to the Ministry and the actual amounts are given below.

| Expenditure | | Receipts | | Debit Balance | |
|---------------|--------------|---------------|--------------|---------------|--------------|
| Maximum Limit | Actual | Minimum Limit | Actual | Maximum Limit | Actual |
| Rs. Millions | Rs. Millions | Rs. Millions | Rs. Millions | Rs. Millions | Rs. Millions |
| 3.50 | 3.48 | 2.00 | 2.19 | 12.00 | 8.50 |

2.4 Imprest Account

The Imprest balance of the Imprest Account No. 7002/0000/00/0437/0016/000 under the Ministry as at 31 December 2016 amounted to Rs. 13.30 million.

2.5 General Deposit Account

The balance of the Deposit Account No. 6000/0000/00/0018/0086/000 under the Ministry as at 31 December 2016 amounted to Rs. 0.23 million.

2.6 Audit Observation

The Appropriation Account, the Revenue Account and the Reconciliation Statements of the Ministry of Petroleum Resources Development for the year ended 31 December 2016 had been satisfactorily prepared subject to the Audit Observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant Audit Observations appearing in that Management Audit Report appear in paragraph 3 of this report.

3. Material and Significant Audit Observations

3.1 Non – maintenance of Books and Registers

The audit test checks were revealed, while the Ministry had not maintained following registers, some registers had not been updated and not maintained properly.

| Register | Relevant Regulation | Observation |
|-------------------------|--|--------------------------|
| ----- | ----- | ----- |
| (a) Bond Register | Financial Regulation 891(1) | Not maintained |
| (b) Register for losses | Financial Regulation 110 | Not maintained properly. |
| (c) Leave Register | 1.7 of chapter XII of the Establishment code | Not maintained properly. |
| (d) Vehicle log books | Financial Regulation 1645(a) | Not updated. |

3.2 Appropriation Account

Budgetary Variance

Following observations are made.

- (a) The total estimated cost of three expenditure objects and four other expenditure objects rang of 68 per cent to 90 per cent of the total provision had been transferred to other expenditure objects under Financial Regulation 66.
- (b) Instead of financial Regulation 66 transfers, additional provision had been made to the 10 expenditure objects by the supplementary estimates. One expenditure object had been transferred amounted to Rs.70 million without any estimate provision. Other 09 expenditure objects rang of 14 per cent to 9200 percent had been taken provision by supplementary allocation.
- (c) Instead of Estimated provision for travelling Expenses foreign was Rs.1 million and financial Regulation 66 transfers was amounted to Rs. 0.9 million and amounted to Rs.1.66 million by two supplementary allocation. Therefore, this expenditure object is 256 per cent of the original estimate or additional provision amounting to Rs. 2.56 million had been obtained.
- (d) Amounted to Rs.58,050,000 relating to 20 expenditure object had been finish before end of the year. Therefore, spending amounted to Rs.15, 870,589 belong to another 13 expenditure object

and later this had been corrected saying as an error correction by a journal by debiting relevant object.

- (e) According to para 2 of circular No 7/2015 dated 29 December 2015 of National Budget the provision for the fuel and transport in the year 2016 annual estimate saving of 15 per cent and 10 per cent respectively should be saved compulsorily. But compulsory savings had not been made for the two expenditure objects.

3.3 Revenue Account

As the Revenue accounting officer of the Revenue object No 20.03.02.21, the secretary of the ministry had been assigned for preparation of revenue estimates, collection of revenue, accounting and submission of accounts. The audit test check is revealed following weakness.

Reasons for the different of Rs.6, 129,859 in between revised estimate and the collection of net income of the Ministry of Petroleum Resources development in 2016 had been accounted under no 18 of revenue account saying “ the amendment of annual registration fee for ship oil sales the US dollar from 100 to 1000”.Eventhough the effect to increase revenue was amounted to Rs.785,691revised estimate and net income collection was Rs.6,129,859.Out of that amount Rs.4,340,000 receive simultaneously at once as debar ages owing to delay entering into a new agreement in between Sri Lankan government and a Malaysian company in 2016 regarding lubricant import.

3.4 Reconciliation Statement relating to Advances to Public Officers Account

Following weakness was observed in the audit test checks on the Reconciliation Statement of the Advanced to Public Officers Account Item No. 15001 as at 31 December 2016.

According to Reconciliation Statement presented to the audit, The Ministry had not been able to collect due arrears balance totalling to Rs.91, 478 and arrears ranging 3 to 4 years.

3.5 Accountability and Good Governance

3.5.1 Annual Action Plan

Even though, according to Public finance circular No 01/2014 of 17 February 2014 the Ministry should be prepared an action plan for the year 2016, the Action plan had been prepared only for four institutions under the Ministry of Petroleum Resources Development in 2016.

3.5.2 Annual Procurement Plan

Even though, the Ministry had prepared a Procurement Plan, four essential items purchased at Rs.80.87 million in the year 2016 had not been included into the Procurement Plan.

3.5.3 Annual Performance Report

Though the Ministry should have tabled the Annual Performance Report to the Parliament within 150 days from the close of the financial year in terms of the Public Finance Circular No.402 dated 12 September 2002, that report had not been tabled in Parliament even by 04 July 2017.

3.6 Assets Management

The test check carried out regarding Assets Management of the ministry. Following weaknesses were observed.

(a) Conduct of Annual Board of Survey

According to the annual Board of Survey reports a shortage of 94 items of 27 categories was remained. According to the Para 3.1.4 of Public Finance Circular No.05/2016 of 31 March 2016 necessary actions had not been taken regarding the above.

(b) Assets given to External Parties

Irregular release of some assets was observed to the extra parties by the ministry. Details are given below.

| Assets category | Assets provided institute | Value | Time Period |
|-----------------|------------------------------|-----------|---|
| ----- | ----- | ----- | ----- |
| | | Rs. | |
| A Motor Vehicle | A Private Company | 1,500,000 | From 16 May 2016 to 09 August 2017 |
| A Motor Vehicle | Above Private Company | 2,500,000 | From 26 August 2016 to 09 August 2017 |

(c) Irregular use of Assets belonging to other Institutions

The audit test check was revealed that some asset belong to other institution had been used by the ministry without proper approvals Details are given below.

| Assets category | Assets provided institute. | Value | Time Period |
|-----------------|------------------------------|------------|--|
| ----- | ----- | ----- | ----- |
| | | Rs. | |
| A Motor Vehicle | Ceylon Petroleum Corporation | 17,900,000 | From 09 October 2015 to 09 August 2017 |

3.7 Non Compliances

Non compliances with Laws, Rules Regulations

The Instances of noncompliance with the provisions in Laws, Rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations

| | |
|--|--|
| (a) Code of Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka. | Non Compliance |
| (i) Financial Regulation 103(1)(b) | Three motor vehicle accidents occurred in the year 2016 had not been reported to the police. |
| (b)Public Administration Circular | |
| (i) circular No 26/92 of 19 August 1992 | Government emblem had not been painted 11 vehicles belong to the ministry. |
| (ii) circular No 01/2002 of 25 February 2002 | Name of the Ministry had not been painted for 11 vehicles. |

3.8 Implementation of Projects from Local Financing

(a) Delays in fulfillment of Project

Audit test check revealed that the projects were delayed in following instances.

(i) Expansion and Modernization of the oil Refinery

At the several occasions of the cabinet of Ministers subcommittee for economic management had discuss in details of Expansion and Modernization of oil Refinery establish in the year 1969. An expert Committee had been appointed only for the finance feasibility studies of the project in the year 2016.

(ii) Rehabilitation and Development of Trinco alee Oil Tank Complex

According to the geographical location Trinco alee is the second deepest port in the world. Trinco alee Oil Tank Complex constructed in the year 1930 and consisting 102 oil tanks Of 12,500 Cubic Meters capacity and other facilities.

Out of 99 oil tanks available at present, 14 oil tanks are being used by the Ceylon Indian Oil Company. Initial decision had been started for the renovation from 2011 for the 84 upper section abundant oil tanks. But at the end of the year the decision was not made because rehabilitation and development had not been done.

(iii) Renovation and Expansion of the Oil Pipeline System of Bandaranaike International Airport

As the components of the Renovation and Expansion of the Oil Pipeline System project in the Bandaranaike International Airport is included to make availability of extra stores facilities and Renovation of prevailing Oil Pipeline System. The engineer estimate of the project is USD 61 million for the renovation and expansion of the oil pipeline of Bandaranayke Internal National Airport, the ministers of the cabinet had decided to call International biddings according to engineering procurement process at the meeting held on 09 December 2015.

(iv)Introducing a pricing formula for Petroleum products

The Ministerial Sub-Committee for Economic Development had decided on the 10 February 2015 to prepare a financially and economically reasonable price formula for petroleum products. However, relevant task had not been completed end of the year under review.

3.9 Human Resource Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2016 had been as follows

| Category of Employees | Approved Cadre | Actual Cadre | Number of Vacancies |
|-----------------------|----------------|--------------|---------------------|
| (i) Senior Level | 16 | 12 | 04 |
| (ii) Tertiary Level | 03 | 02 | 01 |
| (iii) Secondary Level | 51 | 32 | 19 |
| (iv) Primary Level | 27 | 23 | 04 |
| Total | 97 | 69 | 28 |

The following observation is made.

Owing to lack of maintenance of optimal employee level and timely evaluation on the number of the employee in year under review 28 vacancies were remain in the Ministry of Petroleum Resources Development. They are Senior Level 04, Tertiary Level 01, Secondary Level 19, and Primary Level 04.