Ceylon Petroleum Storage Terminals Limited - 2021

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1. Financial Statements

1.1. Qualified Opinion

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

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

1.2. Emphasis of Matters

I draw attention to the following notes to the financial statements which describe the matters related to the fair valuation of assets, and the assessment raised by Inland Revenue Department to the Company relating to long outstanding balances. My opinion is not qualified in respect of these matters.

(a) Note 10.5 to the financial statements which describes revaluation of fixed assets to bring up to its fair value. The Company had not established a proper policy to revalue its assets since its inception in 2003, and accordingly, Rs.7,875,277,911 worth of fully depreciated property plant and equipment, comprising 22,902 items, had been continuously used by the Company without being reassessed and accounted for the useful economic lifetime.

(b) Note 20.1(b) to the financial statements which describes the assessment raised by Inland Revenue Department to the Company relating to the long outstanding balances totalling Rs.897 million of Income Tax, Value Added Tax (VAT) and Pay as You Earn tax (PAYE).

1.3. Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.6. Audit Observations on the preparation of Financial Statements

1.6.1. Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(i) Completed construction work amounting to Rs.142.5 million had been remained as work in progress (WIP) without transferring to the Property plant and equipment. Further, the provision for depreciation had not been provided as per the LKAS 16 for the above asset.	The total cost incurred on WIP will be transferred to main assets along with the final retention payable after submission of final contractor's invoice certified by the engineers.	The Company should comply with the requirement of the Standard.
(ii) The Company had incurred a sum of Rs. 10.2 million during the year 2021 for renovation of official residence of the Minister of Energy which had not been belonged to the Company, and it had been recorded as WIP in the financial statement of the year under review.	Secretary to the Ministry of Energy has reimbursed an amount of Rs. 12,984,317/- during the year for renovation of official residence of minister of energy and once total cost of renovation is reimbursed by Ministry of Energy; work-in-progress account will be automatically cleared.	The expenditure relating to the Company should be disclosed in the financial statements.

1.6.2. Accounting Deficiencies

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

1.6.3. Accounts Receivable and Payable

(a) Receivables

Audit Issue	Management Comment	Recommendation
(i) There was a trade and other receivable balance (including related parties) of Rs.11,246.6 million as at the end of the year under review, and out of which a balance of other receivables amounting to Rs.7.6 million had been remained unrecovered for over 5 years. However, balance confirmations especially on recoverability of them were not made available to audit.	Most of these balances are carried forward from prior to SAP ERP implementation in year 2010. The Audit & Management Committee recommended to write off these long outstanding balances with the prior approval of Board of Directors.	Appropriate action should be taken to recover or get remedial action on long term outstanding receivable balances.
(ii) There were credit balances in 07 other receivable accounts amounting to Rs.2.6 million as at the end of the year under review. However, the Company had made some subsequent transactions with those suppliers without being cleared their credit balances. Therefore, existence and accuracy of those credit balances were questionable in audit.	Maximum efforts have been taken to recover these outstanding balances. Likelihood of recoverability of these balances are very remote. Audit & Management Committee recommended to write off these long outstanding balances with the prior approval of Board of Directors.	Appropriate action should be taken to get all balances cleared.

(b) Payables

	Audit Issue	Management Comment	Recommendation
(i)	The aggregate of 25 payable balances amounting to Rs.1.5 million had been outstanding for over 05 years, and 13 payable balances amounting to Rs.0.8 million had been outstanding ranging from 01 to 05 years as at the end of the year under review. Accordingly, existence and accuracy of those balances could not be ascertained properly in audit.	There were certain vendor liabilities lying as long outstanding payables where creditors do not demand the payment due to an oversight. Company commences due diligence for each vendor account liability and action will be taken to written back subject to Audit & Management Committee recommendations and approval of Board of Directors once the legal clearance given to derecognize the liability.	Appropriate action should be taken relating to the long outstanding balances.
(ii)	There were 20 debit balances in trade and other payable accounts amounting to Rs.6 million as at the end of the year under review. Ten debit balances, out of the above, amounting to Rs.4 million had been remained unsettled for over 5 years, and other 10 debit balances included in the trade and other payable accounts amounting Rs.2 million had been remained unsettled ranging from 01 to 05 years.	Most of the debit balances in Vendor accounts are reflected due to reversal of erroneous invoice verifications in SAP (MIRO) without clearing the balances.	Appropriate action should be taken to reconcile the balances.

1.6.4. Related Party Transactions

Audit Issue	Management Comment	Recommendation
(i) According to the records maintained by the Company, amounts receivable from and payable to the CPC had been Rs.8,608 million and Rs.404 million respectively. However, as per the records maintained by the CPC, the amount payable to and receivable from the Company had been Rs.8,331 million and Rs.662 million respectively. Accordingly, it was observed that there was a net difference of Rs.535 million, which had comprised a sum of Rs.277 million of receivables and a sum of Rs.258 million of payables respectively in the intercompany balances between the two entities.	Reasons for the variances are as follows, 1. Rs.53,548,548 - SAP Maintenance charges receivable not accounted by CPC 2. Rs.203,088,745 - Write off outstanding transport income 2021 not accounted by CPC 3. Rs.194,529,679 - Throughput & Transport charges which are not accounted in CPC books 4. Rs.44,906,835 - Accounted by CPSTL but not accounted by CPC 5. Rs.4,737,293 - Miscellaneous invoices not accounted by CPSTL 6. Rs.339,355,980 - Accounted by CPC but not accounted by CPSTL	Appropriate action should be taken to clear all the disputed balances and disclose in the financial statements.
(ii) According to the records maintained by the Company, the amount receivable from the LIOC was amounted to Rs.710 million while the confirmation received from LIOC, the amount payable to the Company, was amounted to Rs.715 million. Accordingly, it was observed that there was a difference of Rs.5 million between the two entities in the intercompany balances.	Reasons for the variances are as follows, 1. Rs.1,183,454 – Port operation & lab charges- unaccounted in LIOC books 2. Rs.273,996 – Transport charges not paid by LIOC 3. Rs.9,131,909 – Throughput income difference not paid by LIOC 4. Rs.2,495,897 – Disputed invoices – unaccounted in CPSTL books	- Do -

1.6.5. Correction of Prior Year Errors

Audit Issue	Management Comment	Recommendation
As stated in the Note No.22.1 to the financial statements for the year under review, the over-recoveries of transport charges from CPC amounting to Rs.77.8 million, Rs.125.3 million and Rs.157.264 million for the years of 2019, 2020 and 2021 respectively had been rectified retrospectively. However, instead of	Management comment had not been given.	The Company should comply with requirement of LKAS 08.

	restating the over charged transport income in the relevant year, it had been recorded as other operating expense. As a result, income and the gross profit of the Company and other operating expenses shown in the financial statements had overstated by Rs.125 million and by Rs.157 million for the years of 2020 and 2021 respectively. Further, cumulative effect to the retain earnings of Rs.57 million as at 01 January 2020 had not been adjusted, and the corresponding tax saving for the year 2019 had erroneously overstated by Rs.2 million.		

1.7. Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Public Enterprises Circular No. PED/12 of 2 June 2003, Guidelines for Good Governance (Effective up to 15 November 2021)			
(i) Guideline 4.2.2	Monthly performance statement in financial and physical terms, operating statement for the month, cash flow statement for the month, liquidity position and borrowings, procurement of material, especially non-current assets purchased during the month and statement on Human Resources including cadre positions, new recruitments etc., had not been tabled regularly at each monthly Board meeting.	Monthly management accounts have been table at the regular Board Meetings held during the year 2020	The Company should comply with the Guideline.
(ii) Guideline 5.2.2(a)	A feasibility study had not been carried out by the Company prior to the	Projects initiated by CPSTL prior to year 2020, Feasibility studies	- Do -

	commencement of construction of 09 fuel tanks.	haven't been prepared as a report, but the projects were initiated and carried out after analysing the feasible conditions of the appropriate requirements. Such feasible analysis was included in the board papers. However, for the projects over LKR 10 million value initiated after 2020, proper feasibility study reports were prepared prior to obtaining the board of directs approval.	
(iii) Guideline 5.2.2(b)	Approval of the Ministry and the concurrence of the Department of Public Enterprises, General Treasury had not been obtained for the capital expenditure exceeded the amount of Rs.10 million.	CPSTL Board of directors' approval will be obtain on all capital development projects on case by case where representation from Treasury, Ministry, CPC & LIOC, board members were appointed to Board of Directors of CPSTL to take concurrent approval from the respective agencies.	- Do -
(iv) Guideline 9.2	A proper organization chart including the approved cadre had not been prepared and registered with the Department of Public Enterprises, General Treasury. Further, in the event of creation of a new cadre, or instances where there were excess cadre, the Company had not taken action in consultation with the Department of Public Enterprises, General Treasury.	The present cadre of the Company including the Organization Chart was approved by the Board of Directors of CPSTL and it was submitted to the Department of Public Enterprises in 2016 which has been endorsed and received by them. But they had informed us verbally to follow the said cadre in granting promotions and recruitments since they haven't yet established any supervisory policy	- Do -

		for partially government owned subsidiaries like ours.	
(v) Guideline 9.3	The Company had not taken appropriate actions to prepare a scheme of recruitment and promotion (SORAP) with the approval of the Board of Directors, and to get the approval from the Ministry with the concurrence of the Department of Public Enterprise, General Treasury.	At present CPSTL apply the same Scheme of Recruitment & Promotions (SORAP) prepared by CPC and the Board has instructed to follow the CPC SORAP and once the CPC finalized the new SORAP CPSTL will also adopt it.	- Do -
(vi) Guideline 9.10	Approvals from the Secretary to the Treasury had not been obtained by the Company for the appointment of contract basis employees. However, there were 15 employees recruited on contract basis at the end of the year under review.	We have not obtained Treasury approval for any recruitment since there were no proper set up for us to obtain approval as the Director General has instructed verbally to carry out the recruitment process as per the cadre submitted to Public Enterprises Department and only the changes in the cadre were to be informed to them before any recruitment.	- Do -
(vii) Guideline 9.12	Approval from the Department of Public Enterprises had not been obtained for the welfare scheme adopted by Company. However, an amount of Rs.31.72 million had been paid as staff welfare expenses during the year under review by the Company.	As per the instructions of the Board of Directors. CPSTL Medical Scheme has been handed over to an Insurance Company few years back as the Company was unable to continue the same. Hence on the approval of the Board of Directors, CPSTL adopted this scheme for hospitalization of staff and family members.	- Do -

(b) Finance Circular No.124 of 24 October 1997 of the Ministry of Finance and Planning	10 officers had been assigned for cover up duties in vacant posts for more than 03 months at the end of the year under review in contrary to circular provisions.	Due to various elections and pandemic situations prevailed during the year, there had been difficulties in formulating the interview panels. Hence we had to continue with the cover up duties which now been fulfilled.	Cover up duties in several vacant posts are still continuing. The Company should comply with the Circular.
(c) Government Procurement Guidelines – 2006			
(i) Guideline 2.3	Initial Environmental Examination (IEE), Environmental Impact Assessment (EIA) and Social Impact Assessment (SIA) had not been carried out by the Company prior to the appointment of Procurement Committee (PC) in relation to the construction of 09 fuel storage tanks	The types of projects which require EIA have been prescribed in the Gazette (Gazette No.772/22 of 24.06.1993). The list prescribed in the said Gazette does not mandate to carry out IEE, EIA or SIA for this kind of projects which comes under petroleum sector and hence they are not relevant to the project. As there are similar tanks in Kolonnawa Installation and they are operating by giving due considerations for environmental issues, hence CPSTL did not carry out an IEE, EIA or SIA.	The Company should comply with the Guideline.

(ii)	Guideline 4.3.1	Total Cost Estimate/ Engineer's Estimate (TCE) for construction of 03 fuel storage tanks had not been prepared by the Company as per the guideline.	CPSTL does not follow the practice to allocate budget for costs for feasibility studies, design, supervision and administration. Further, budget allocations for price contingencies were not allocated as the Contract was not subjected to Price Escalation and budget for Physical Contingencies was not allocated as approvals for any variation have to be obtained from the Board of Directors separately. Therefore, Total Cost Estimate (TCE) was not prepared, and budget was only allocated for Direct Construction Cost (DCC). However, in case any design that is needed to outsource, that costs are included in DCC. CPSTL will take necessary actions to inform this matter for due consideration of the Board of Directors.	- Do -
(iii)	Guideline 5.4.2	The price variation formula had not been included in the bidding document and the contract agreement even the contract period is 20 months for construction of 03 fuel storage tanks.	The bidders were allowed to quote in mixed currencies "in order to minimize the foreign exchange risk". Most of the materials have to be purchased in USD or similar foreign currency and their CIDA indices are not available, hence price escalation formula for such materials cannot be applied. Therefore, price escalation formula	- Do -

was not included. However, CPSTL is in the process of analysing a way to apply price escalation formula accommodating "foreign materials component" and "local component" for the future projects.

2. Financial Review

2.1. Financial Result

The operating result of the year under review amounted to a profit of Rs.1,595 million and the corresponding profit in the preceding year amounted to Rs.2,215 million. Therefore a deterioration amounting to Rs.620 million of the financial result was observed. The reasons for the deterioration are increase in administrative expenses and decrease in finance income.

2.2. Trend Analysis of major Income and Expenditure items

The operations of the Company had resulted in a mark-up (Gross Profit/Direct Cost) of 70.58 per cent for the year under review thus indicating a decrease of 7.14 per cent as compared with the mark-up of 77.72 per cent in the preceding year. Similarly, the Gross Profit for the year under review had decreased by Rs.26 million or 0.44 per cent as compared with the corresponding Gross Profit of Rs.5,933 million in the preceding year. This decrease is summarized and shown below,

Description	**For the Year ended 31 December**		**Variance**	
	2021	**2020**	**Favourable/ (Adverse)**	**Percentage**
	Rs. Million	Rs. Million	Rs. Million	
Revenue	14,276	13,568	708	5.22
Direct Cost	8,369	7,634	(735)	(9.63)
Gross Profit	5,907	5,933	(26)	(0.44)
Other Income	706	573	133	23.21
Other Operating Expense	157	137	(20)	(14.60)
Administration Expense	5,061	4,463	(598)	(13.39)
Operating Profit	1,394	1,906	(512)	(26.87)
Finance Income	202	309	(107)	(34.63)
Profit/(Loss) Before Income Tax	1,595	2,215	(620)	(27.98)

2.3. Ratio Analysis

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

Ratios	2021	2020
Profitability Ratios		
Gross Profit Ratio (GP) (%)	41.38	43.73
Operating Profit Ratio (%)	9.76	14.05
Net Profit/ (Loss) Ratio (NP) (%)	8.28	14.75
Liquidity Ratios		
Current Ratio	7.6:1	8.4:1
Quick Ratio	7.2:1	8.03:1
Working Capital (Rs. million)	13,798	13,041
Investment Ratio		
Return on Assets (ROA) (%)	4.69	6.80

3. Operational Review

3.1. Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
The total amount of outstanding Employee Loan balance of the Company at the end of the year under review was Rs.3.359 billion. The following observations are made regarding the Employee Loan Scheme of the Company.		
(i) Even though, a substantial loan portfolio had been introduced and maintained by the Company, a proper financial policy to manage the staff loans had not been established by the Company. Further, required consultation with expertise for treasury operations had not been obtained internally or externally by the Company.	Granting concessionary rate of interest rates and staff loans to employees of CPC & CPSTL has been a long-standing practice for more than 60 years history of the CPC as a welfare measure to employees working in the Sri Lanka’s largest Government owned commercial entity in parallel with the facilities enjoyed by other Government employees.	The Company should establish a proper financial policy for staff loans.

(ii)	The financial difficulties of the company for operational activities have also been caused by giving large amount of loans to employees, so to overcome these problems, the Audit and Management Committee (AMC) had recommended outsourcing the loan scheme to a commercial bank or a financial institution, however, the company's attention was not drawn on the recommendations.	Due to an economic crisis and abnormal high interest rates prevailed in the country these days. Company is not in a position to give an undertaking to reimburse the excess interest payable to banks over market interest rate as the company has to incur heavy interest burden during this economic crisis period.	The Company should take prompt action to outsource the loan scheme without being impaired the employees.
(iii)	A loan master file had not been properly maintained and updated. As a result, default loan balances including outstanding balances of resigned or retired staff had been increased to Rs.41.44 million at the end of the year under review. Further, the Company had failed to enforce legal actions against the defaulters.	Loan master databases are now fully handled by newly introduced loan management system in SAP ERP system. Legal action has been initiated by Legal & HR department to recover defaulted housing and other loans.	The Company should expedite the loan recovery process.
(iv)	According to the Personal Division Circular No. 1063 dated 11 July 1985 of the CPC, monthly instalments of the loans could be accommodated within 50 per cent of the employee salary/wage together with other deductions. However, loan instalment had been charged contrary to the circular instruction,	CPSTL calculate maximum 50% limit on repayment of salary includes Basic salary + Professional allowance + Stagnation + cost of living allowance. In addition to the above, higher percentage of basic salary indicates reasons such as arrears instalments of loan recoveries due to non-recovery of loan instalments during Covid pandemic situation in 2021 and being double of loan instalments due to reinstatement of employee interdicted.	The Company should take prompt actions to outsource the loan scheme without being impaired the employees.
(v)	Even though there was no proper financial policy established by the Company to manage the staff loans, employees had been encouraged to take more loans without being reviewed the recoverability of loans from their salaries. It was further observed that more opportunities for overtime works had been provided to	CPSTL does not pay any staff loans to employees exceeding 50% of the monthly eligible salary *(Except for special disturbance loan which is @ 60%)*. However, company has kept a ceiling limit 50% of the salary as the deductible limit for loans granted. HR Function does not instruct to	The Company should review the recoverability of loans from salaries before granting loans.

employees as a basis for recovery of staff loans provided to them even without real requirements of overtime works. Accordingly, the Company had to incur uneconomic expenses for overtime payments. As a result, 1,335 employees i.e. more than 50 per cent of total employees of 2,638 of the Company had earned income from overtime works over 75 per cent of their basic salaries, while 988 employees had earned overtime income more than 100 per cent of their basic salaries. Further, 210 employees had earned overtime income more than 200 per cent of their basic salaries while 19 employees had earned over 300 per cent of their basic salaries.	deduct salary of any of the employee beyond the 60% of the limit. However, some employees have taken personnel loans from banks in addition to the staff loans given by the company. In addition to that, there are many practical situations where overtime work engagement is unavoidable. Therefore, providing loans by the Organization is not the only reason for this situation. 19 Employees who are getting OT of above 300% of basic salary are working at distribution mostly drivers & porters and Offshore operations technical staff.	

3.2. Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The main business of the company was to store the fuel stocks owned by CPC and LIOC through 02 main terminals and 11 sub-depots and distribute them to the authorized dealers and customers spread across the country as per the instructions of those companies. The following observations are made in this regard.		
(i) Main activities in the process of supplying of petroleum products, such as accepting fuel orders from dealers and consumers, verifying the credit limits and related pre-qualifications, issuing invoices, collecting cash from dealers, which should have been handled by the marketing entities (essentially by CPC), had been carried out by the Company. Therefore, it was observed that the Company had been engaging in the tasks outside its main scope of storage and distribution of petroleum product. Further, such activities were	The Common User Facilities Share Holder's Agreement signed by Government of Sri Lanka (GOSL), CPC and LIOC on 30th December 2003, does not include any clauses pertaining to the operational activities of the three organizations. At the time of formation of CPSTL, there were no changes have been made to the existing business process prevailed at that time when privatization of CPC in year 2003. Further there were no alternative mechanism was introduced by CPC & LIOC for operational activities	The Company should act in accordance with established objectives.

not covered by the Common User Facilities Share Holder’s Agreement dated 30 December 2003 entered into among the Government of Sri Lanka (GOSL), the CPC and the LIOC.	mainly due to non-availability of online real time ERP system.	
(ii) Registered dealers and customers of the CPC had placed their fuel orders directly to the Company instead of being sent to the CPC, and most of the marketing activities of the CPC and cash collections were handled by the Company without taking the consent of the CPC. However, dealers of the LIOC had placed their fuel orders directly to the LIOC, and thereafter, the Company had involved only for the distribution of fuels as per the instructions given by the LIOC. Accordingly, it was observed that the Company had dealt with the CPC and LIOC in a different way.	There were no restrictions nor were limitations imposed by CPC & LIOC on sale of quantity of bulk petroleum products to its registered dealers & consumers in the past and given authority to CPSTL to accept the sales orders to place the fuel orders subject to availability of products at the respective island wide installations. Further, cash collection procedure is done by CPSTL as a routine.	The Company should act within its main scope.
(iii) During the prevailing economic crisis situation in the country, there was a limited stocks of petroleum products. Accordingly, a priority list for distribution of limited stocks of fuel among the island wide dealers and other consumers had been prepared and sent by the CPC to the Company daily. However, in audit tests it was observed that, 2,509 of loads (6,600 litres per load), had been distributed among dealers without being considered the priority list. Further, 2,524 loads included in the priority list had not been distributed among dealers, and it had not been informed to the CPC. In the prevailing economic situation in the country, distribution of limited available stocks of petroleum product lacking fair distribution plan might have negatively impacted to the economy of the country.	The factors such as lack of cash/credit with the prioritized dealer on the prioritized day in order to deliver the order, not placing any order by the dealers who was in the priority list, challenge to distribute the products with limited number of bowsers among numerous dealers who were in various locations as prepared list, not preparing the list with the assistance of the distribution function who has the thorough knowledge of the routes and the areas had an impact on adhering to the prepared list.	The Company should comply with the instructions given by the Marketing Entities regarding fuel distribution.

(iv) In an audit test it was observed there were instances that, Lanka Petrol (Octane 92 or 95) had not been distributed for 120 dealers, and only 6,600 litres of Lanka Petrol had been distributed among 22 dealers. Further, more than 210,000 litres per each had been distributed among 08 dealers. LAD had not been distributed for 73 dealers, and only 6,600 litres had been distributed for 08 dealers. However, there were instances where more than 200,000 litres were distributed to 17 dealers each. Hence, unequal or unjustifiable pattern of distribution of fuel during the crisis period was observed and which would have led to create unnecessary queues and public unrests in some areas of the country.	As per information, some of the dealers have received more loads compared to others. 1. Dealers who has got more orders have higher amount of cash in the account while some of the others doesn't have cash at least to deliver one load. 2. There were some dealer points which were prioritized for fire brigade, health services and other essential services. Due to above factors, some of the dealers received more orders. This was also done with the pure intention to neutralize the emerging social unrest. Therefore, we accept the fact and confirm that we have rectified the issue.	The Company should follow the instructions given by the marketing entities and Reasonable and justifiable reasons have to be there when deviate from such instructions.
(vi) In the fuel crisis situation in the country, the number of bowsers released per day had been limited by the Company despite the ability to release fuel from 2 terminals and a depot within a very short period of time. However, during this crisis period, there were instances where the terminal operated for more than 12 hours to issue less than 100 bowsers per day. Further, it was observed that there was no formal plan to release Bowsers in a short period of time.	Terminal has operated more than 12 hours just to release 100 bowsers per day due to reasons such as operating few bowsers in this period, policy decision to keep open the terminal in all 7 days in the week, emergency requests from Harbour, Airport, hospitals and tri forces and necessity for supplying fuel oil/diesel to power plants. Furthermore, some orders were delivered out of the priority list with the order of higher authority.	A system should be introduced to release bowsers within a short period of time.

3.3. Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	According to the Section 03 of the Settlement Agreement dated 05 January 2007 between the Government of Sri Lanka and LIOC, the delivery of petroleum products by LIOC from its China Bay installation had been limited to a maximum of 5 per cent of the Country's throughput of petroleum products, and the delivery of petroleum products by CPC had been limited to a maximum of 5 per cent excluding the deliveries from Sapugaskanda Refinery. However, a proper system to monitor the delivery process had not been established by the Company. Therefore, there was a risk of losing of income from throughput charges of the Company.	Settlement Agreement was signed between Government of Sri Lanka & Lanka IOC Limited on 05th January 2007 for purposes such as settlement of Rs.7.4 billion subsidies to LIOC, permit marketing companies to Commercial Pricing of Petroleum Products for future operations with effect from 01st July, 2006, restrict deliveries of petroleum products by CPC owned 'Sapugaskanda' Installation to a maximum of five (5%) percent of the country's throughput of petroleum products, restrict deliveries of petroleum products by LIOC from its China Bay Installation to a maximum of five (5%) percent of the country's throughput of petroleum products and permit deliveries of balance ninety (90%) percent of petroleum products of countries throughput by CPSTL owned Installations.	A formal process to monitor the compliance of conditions should be established.
(b)	As reiterated in previous reports, it was observed that the Shareholders Agreement and Share Sales Purchase Agreement for the common user facility among CPC, LIOC and CPSTL had expired on 31 December 2008. However, the Company had not taken any action to extent the agreement for a further period of time or to enter into a new agreement. As a result, the pricing formula used for the purpose of determining the throughput charges, transport charges including slab recoveries with the consent of all the related parties had	No new fresh agreement was signed by all stake holders up to now except for the interim agreement signed by CPC & CPSTL during the year 2018 without obtaining the CPC/CPSTL board approval. Action have been taken by Ministry of Energy on Oct. 2021 to sign a new CUF agreement between stakeholders. Due to the disagreement with stakeholders on certain new clauses in the proposed new agreement,	Action should be taken to renew the relevant agreements.

	not been revised after 2011.	signing of agreement is further delayed. Even after expiry of CUF agreement, CPSTL continued its operations and management of Common User Facility as per the terms and conditions of the CUF agreement signed in year 2003. The future of CPSTL is at standstill, if CPC & LIOC decided to carry out more deliveries from Sapugaskanda & China Bay oil terminals at their own discretions.	
(c)	Even though a proper agreement should be maintained between the parties who provide any support services to an organization for smooth running of the business and minimizing the cost, any agreement or even a Memorandum of Understanding (MOU) had not been signed with CPC and LIOC related to all associated business activities. As a result, procedures, roles and responsibilities of each party had not been properly defined.	Action have been taken by Ministry of Energy on Oct. 2021 to sign a new CUF agreement between stakeholders considering the changes took place in the petroleum industry in Sri Lanka during the last 20 years period. Due to the disagreement with stakeholders on certain new clauses in the proposed new agreement, signing of agreement is further delayed.	Action should be taken to entering in to an agreement without delay.
(d)	Distribution of petroleum products to its own bulk depots and registered dealers and consumers of CPC and LIOC is the main business of the Company. For this purpose, the Company had maintained its own bowsers fleet with 147 bowsers, and 653 of registered hired bowsers. Following observations are made in this regard.		
(i)	According to the vehicle performance report of the SAP, a considerable number of owned bowsers of the Company had not been optimally utilized. As per the audit test carried out relating to a month, it was observed that out of 147 bowsers owned by the Company's fleet, 47	CPSTL own 145 number of bowsers and 4 numbers of them are utilized in other functions (Fire & Safety and Operational duties). Number of 19 bowsers are under the major repairs at Auto Mobile function and 15 are in minor repairs due to the	Action should be taken to optimally utilize its own resources.

	bowsers had not been utilized/ circulated even a single trip during that month. Utilization of the Company owned bowsers had been limited lower than half of the capacity or ranging from 50 to 79 bowsers per day. As a result, the Company was unable to recover at least the fixed overhead cost incurred by the Company.	unavailability of motor spare parts. Accordingly, it has been found that 107 owned bowsers have been utilized in the organization at month of May 2022.	
(ii)	The company had not been followed Government Procurement Guidelines when selecting outside transporters (Bowsers). Accordingly, transparency of procurement process used for hired bowsers was doubt in the audit.	Tender for hire private bowsers were processing as a pilot project to implement the transparent procurement procedure of selecting outside transporters to the operation.	The Company should comply with the Guideline.
(iii)	According to the hired bowsers performance report for the month of January 2022, 129 bowsers or 20 percent of the registered bowsers had not been provided any trip during the month, while 100 bowsers or 15 per cent of registered bowsers had been provided trips for less than 10 days. However, 64 bowsers or 10 percent of registered bowsers had been provided trips for more than 20 days during the month including 9 selected bowsers which had been provided trips for over 24 days during the month. Therefore, the basis of allocating trips to private bowsers was not clear in audit.	Mismatch of allocating trips to hired bowsers was observed previously. The maximum running mileage introduced as a guideline for hired bowsers through SAP system from 2021.	Allocating trips to private bowsers should be done in a transparent or justifiable pattern.

3.4. Defects in Contract Administration

Audit Issue	Management Comment	Recommendation
The Company had awarded a tender to procure, construct and commission a storage tank with 15,000m^3 and 02 storage tanks with 7,000m^3 at Kolonnawa installation to a private company registered in Sri Lanka on 16 October 2020 at a contract price of Rs.942,474,240. Following observations are made in this regard.		

(i)	In order to effective implementation of the project, the project team and/or consultant had not been appointed prior to commencement of the project.	Initially, CPSTL decided to carry out the contract administration of 3 tanks via staff attached to Engineering Function. Subsequently, as construction activities of another project of 6 tanks which was delayed and recommenced together with the 3 tanks project during the pandemic period. Board approval was requested on 09.06.2021 for dedicated project team to implement as the contract administration of both projects to be carried out simultaneously. However, during COVID 19 pandemic, and frequent change of management there was no ambience to make this type of requests, hence it was delayed.	Project team or consultant should be appointed prior to commencement of the project.
(ii)	The Company had not prepared detailed bill of quantity (BOQ) including the rates in order to calculate the Direct Construction Cost. Therefore, the accuracy of direct construction cost of the project could not be satisfactorily verified in audit. Further, an approved Total Cost Estimate (TCE) had not been prepared in terms of guideline 4.3.2 of the GPG, and accordingly, the bid evaluation had been carried out by the Technical Evaluation Committee (TEC) without a duly approved TCE.	CPSTL prepared the line-item rates based on the previous experience of the recently completed similar nature tank construction/repair projects. The direct construction cost (DCC) was calculated using such rates. The TEC used the DCC for the bid evaluation purpose.	Action should be taken to include detailed BOQ in bidding documents since the project is a measure and pay type contract.
(iii)	According to the information made available, it was observed that the duties such as approval of total cost estimates, preparation of bidding documents, bid evaluations, certification of interim bills and all other contract administration activities had not	Procurement Entity will take necessary actions to segregate the duties in the future.	Duties should be properly segregated among committed persons with responsibilities.

	been properly segregated and handled by the Deputy General Manager- Engineering and Support Services of the Company.		
(iv)	According to the section 12.2(b) of the contract agreement, the contract for construction of 03 fuel storage tanks was a measure and pay type contract. However, the Company had paid a sum of Rs.750,129,599 without obtaining even a detailed bill of quantity (BOQ) which should have been included in the bidding documents. Therefore, the way of measuring the works performed and the calculation of the actual amount to be paid to the contractor could not be ascertained in audit.	Sub Clause 14.1 (d) of the CoC state that “The Contractor shall submit to the Engineer, within 28 Days after the Commencement Date, a proposed breakdown of each lump sum price in the Schedules. The Engineer may take account of the breakdown when preparing Payment Certificate, but shall not be bound by it” As per the above clause, the breakdown percentages of relevant BOQ items were obtained from the Contractor and CPSTL reviewed/negotiated them and collectively agreed. The agreed breakdown percentages are in safe side for CPSTL. The value of work performed for interim payments was determined accordingly. For interim payment verification, the agreed breakdown of BOQ items can be used. However, final payment for each BOQ item will be certified only after completion of works and relevant testing of such items.	Payment certification should be done by engineering function as per the detailed BOQ.
(v)	Even though the selected bidder was a local company and which was in a position to purchase most of the raw materials, and to recruit technical staff locally, that company had submitted quotation in foreign currency (USD). However, there was no sufficient evidence to verify whether the TEC had considered the above facts in detailed bid evaluation.	TEC has obtained clarification regarding foreign currency payments during evaluation from prospective bidder. The bidder had forwarded their justification which was included in the Bid Evaluation –Supplementary report dated 29.06.2020.	In entering into the contracts, the management should ensure that the decisions are taken as most beneficial to the organization.

	Further, the contractor’s interim bills had been prepared and submitted in USD terms and that bill amount had been settled in Rupees at the exchange rate prevailed at the interim bill payment date. Accordingly, the Company had to incur an additional cost of over Rs. 69 million due to depreciation of Rupee value against the USD.		
(vi)	According to financial comparison of the bid evaluation report, considerable differences were observed between the CPSTL estimate and the selected contractor's bid price. Therefore, it was observed that the company’s estimate had been prepared without following a proper detail financial assessment prior to awarding the contract. Further, it was unable to ascertain whether TEC had requested a detailed rate analysis from the bidder to verify the possibility to perform the works as per the quoted rates.	Generally, in mechanical contracts, line-item rates are varied within a considerable range. CPSTL prepared the line-item rates based on the previous experience of recently completed similar nature tank construction/repair projects. Only in “External work” the bidder’s price is 77.59% less than CPSTL estimate, it has minor impact on the overall bid price. The variation of other BOQ items and overall bid price were in acceptable limit, TEC did not inquire regarding price variation in “External work”.	Since a material difference were existed between Company’s estimate and selected contractor’s bid price, the Company should obtain rate analysis for each BOQ items.
(vii)	The Company had not retained a sum of Rs.27,889,241 in relation to six (6) interim payments in terms of the section 14.3(c) of the contract agreement relating to 03 fuel storage tanks due to absence of a proper payment certification procedure within the Company	Management comment had not been provided.	Retention money from each interim payment should be retained as per the contract agreement. A proper payment procedure should be followed when making payment to the contractor.

3.5. Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) As iterated in previous years audit reports, considerable vacancies and excess employees in the Company were observed. Accordingly, out of the approved cadre of 3,249 of the Company, 771 vacancies (including 58 vacancies in the A grade senior management) and 160 excess employees were observed at the end of the year under review. However, appropriate actions had not been taken by the Company to fill the vacancies or revise the cadre to match with the real cadre requirement of the Company.	1. The 2016 cadre has been prepared for 5 years i.e. 2016 – 2021. At the preparation of the cadre, it was agreed upon that as per the requirement and based on the request of the relevant Head of Function, only the essential cadre vacancies should be filled from time to time as when and where necessary over the 5 years period and to minimize the external recruitment as much as possible. 2. It is also noted that each year a considerable no. of employees retires, resign or vacate the post and the no. of such separations in the year 2020 is 160 and 136 in 2021 up to November 2021. Due to this separation the actual no. of employees has decreased to 2672 as at 1st November, 2021 whereas the approved cadre strength is 3249. Accordingly, we are unable to fill all the vacancies as expected. 3. It is also noted that even very essential technical and operational related external recruitments could not be completed due to covid 19 situation. 4. There had been vacancies created from the 2019 onwards due to separations and added to the vacancy list over the years and they were unable to be filled due to various elections held during the said years and the pandemic situations. However, we expedite the internal promotions to fill the vacancies in year 2021 and considerable no. of interviews were held via Zoom and were able to grant 563 no. of promotions during the year 2021. 5. Considering the changes in the cadre requirement a cadre review was done at the end of the year 2021. But it has been delayed due to frequent management changes and the cadre has now been reviewed and a new cadre proposal has been forwarded to the Board of Directors for approval.	The cadre of the Company should be critically re-evaluated and decided the appropriate cadre levels for efficient and effective operations of the Company.

		6. Excess employees are indicated in the cadre positions are due to schemes like Political Victimization promotions, ten-year stagnated promotions, etc. since they do not match with the exact cadre position. However, we consider positions of these additional employees as well in determining the vacancies and the actual strength including the excess employees by the date was 2672.	
(b)	According to the information made available, even though the Company had only 182 Tank Lorries and average utilization per day is around 75 bowsers, the actual cadre of lorry drivers had been 222 as at the end of the year under review. Further, the actual utilization of Tank Lorries during the past period had been very limited, and accordingly, the most of lorry drivers were idle.	CPSTL use its browser fleet to distribute Petroleum Fuel Island wide. We have allocated drivers on SHIFT basis considering the distance as well as the risk involved in driving with loads of hazardous fuel during the daytime as well as in the night time. Therefore, availability of drivers cannot be match with one-to-one basis with the availability of Tanker bowsers. The excess drivers are mainly due to provision given for drivers to take leave, drivers who are on standby duty and bowsers undergoing accident repairs and maintenance work at the automobile function and outside repair centers, etc... At present there are 148 Tanker bowsers are in operation in Kolonnawa and other Bulk Depots.	The cadre of the Company should be critically re-evaluated and decided the appropriate cadre levels for efficient and effective operations of the Company.

3.6. Management of Vehicle fleet

	Audit Issue	Management Comment	Recommendation
(a)	The Company had used a daily vehicle trip sheet instead of being used a vehicle running charts for each vehicle. Accordingly, it was observed that there was a possibility to manipulate and make changes erroneously to the trip sheets attached to the file. Further, the details of fuel consumption and the driver's comments about the running conditions of the vehicle had not been included in trip sheets. Also, the details of drivers' duty on and off time had not been	Fuel consumption details of all vehicles are recorded in SAP system & get monthly summary sheet of each vehicle from the system to monitor variations if any. All drivers have been advised to carry out daily vehicle inspection & inform to Garage function if any drivability issues arise. If repairs are noticed, special note will be sent to Garage with the signature of Executive Officer. (This form can be submitted via SAP system or manually.) Fingerprinting is mandatory at the	Relevant documents should be maintained properly.

monitored by an authorised officer.	time of reporting for duty & left for the drivers in vehicle pool. However, drivers assigned to CPSTL officials have been advised to record their duty reporting & left time in their trip sheets and respective officer to be supervised.	
(b) Fuel consumption of the vehicles had not been regularly checked and monitored by the Garage Function of the Company, and vehicle log books had not been maintained to record repairs and maintenance of vehicles. Therefore, it was observed that the internal control over the vehicle administration and monitoring of the maintenance and fuel consumption were not at satisfactory level.	The Garage Function maintains 02 files for each vehicle, one for recording repairs & expenses and 02^{nd} one for accidents recording & license insurance. However, all information is recorded & maintain in SAP System also. Currently, as per the instructions given at the Special Audit Investigation carried out by National Audit Office, steps have been taken to improve the vehicle administration of the company while minimizing errors. This practice carried out since 2020.	A formal system for vehicle administration should be established.

4. Accountability and Good Governance

4.1. Corporate Plan

Audit Issue	Management Comment	Recommendation
As per the Guideline 5.1.1 of Public Enterprises Circular No. PED/12 of 2 June 2003 - Guidelines for Good Governance, the Company had not prepared a corporate plan and presented to audit.	Tender for preparation of 05-year Corporate Plan was awarded to M/s. Ernst & Young (Chartered Accountants) in the year 2018 and draft Corporate Plan was submitted in October 2018. After change of Government in Dec 2019, new management change the scope of preparation of Corporate Plan and revised 05-year corporate plan is yet to be completed.	The Company should comply with the Guideline.