

## **Fuel Price Stabilization Fund - 2022**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Fuel Price Stabilization Fund for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of 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(3) 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 reported to Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Opinion**

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 opinion.

#### **1.3 Emphasis on Matters**

The Director General of the Department of Public Enterprises, who is a member of the Management Committee had informed the Audit that the Fund has no going concern and it had been disclosed in the financial statements of the year under review as well. Moreover, the Director General of the Department of Public Enterprises had informed the Audit on 25 November 2021 that it is suggested to expedite submission of a proposal to the Cabinet for liquidating this Fund and that it is due to obtain Parliamentary approval on taking over, liquidation etc. by the General Treasury relating to establishment, transactions and settlement of liabilities through the said proposal. However, action had not been taken accordingly even by 24 March 2023.

#### **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 Public Sector 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 fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act, No. 19 of 2018, the Fund 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 Fund.

## **1.5 Auditor's Responsibility 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund'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 fund'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. However, future events or conditions may cause the fund 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 fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund;
- Whether the fund has performed according to its powers, functions and duties; and
- Whether the resources of the fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 2. Operating Review

### 2.1 Performance

Audit Observation	Comments of the Management	Recommendation
<p>The intended objective of establishing a Price Stabilization Fund is to maintain a stable price by controlling the local price fluctuations during price increases and price decreases in the world market. An accumulated net surplus of Rs.22,434,531,371 had been earned by the Fuel Price Stabilization Fund during the period from March 2020 to January 2021 due to the sale of fuel at the existing price by imposing surcharges on imports where there was price decrease in world market. Even though that surplus can be maintained as a liquid asset to keep up the local price steadily, when the prices are increasing in the world market, it had not been mentioned in the Cabinet Decision and as per its</p>	<p>The book value amounting to Rs.47.47 billion (Face value of Rs.50 billion) had been obtained as an advance by issuing Treasury Bills through Cabinet Memorandum No.MFE/ERD/17/CM/2020/072 of 31.03.2022 of the Minister of Finance for initiating this fund and the said sum along with a part of the surcharge money and a sum of Rs.48 billion had been provided to the Ceylon Electricity Board. Moreover, only the said sum of Rs.48 billion had been accurately indicated in accounts as the capital contributed by the Fund. Furthermore, settling the liabilities to the Ceylon Petroleum Corporation by the Ceylon Electricity Board by spending this Rs.48 billion is a condition included in the aforesaid Cabinet Memorandum. The main</p>	<p>The fund should be utilized for stabilization of the local fuel price in relation to change in the fuel price in the world market.</p>

approval, with the use of money received from the Department of Treasury Operations the amount of Rs.48 billion had been provided to the Electricity Board as capital contribution during the year 2020.

Moreover, action had been taken to set off a sum of Rs.22,434,281,242 of the capital contribution asset of the Electricity Board, which was Rs.48 billion indicated as investments in the Fuel Price Stabilization Fund with the approval of the Secretary to the Ministry of Finance and the concurrence of the Fuel Price Stabilization Fund Committee against the accumulated fund of the Fuel Price Stabilization Fund and to make adjustments in accounts. A sum of Rs.24,543,438,158 of the remaining value of Rs.25,565,718,758 of the capital contribution asset of the Electricity Board had been set off against the Liability Account of Rs.25,565,718,758 which was payable to the Department of Treasury Operations and the remaining sum of Rs.1,022,280,600 had been indicated in the financial statements of the year 2022 as the capital contribution asset of the Electricity Board in the Fuel Price Stabilization Fund and as a liability payable to the Department of Treasury Operations. However, the said capital contribution which was Rs.48,000,000,000 had been further indicated in the financial statements of the Electricity

objective was to bring the financial position of the Ceylon Petroleum Corporation to a favourable level and control the increase in fuel price. Accordingly, the price could be steadily maintained up to the last price revision with the continuous price increase in the world market during the year 2020 and the early part of January 2021.

Board for the year ended 31 December 2022 as a total capital contribution of the Fuel Price Stabilization Fund.

## 2.2 Non-compliance with Laws, Rules and Regulations

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
<p>Although the approval had not been given by Parliament to collect revenue and make expenses beyond the Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka, this Fund was initiated from 18 March 2020. The approval of Parliament according to the F.R. 876 revised by Public Finance Circular No. 01/2020 dated 28 August 2020 had not been taken even by 24 March 2023, the date of audit.</p>	<p>In terms of F.R.876 revised by Public Finance Circular No.01/2020, if it appears that it is not necessary to further maintain statutory or non-statutory trust funds effected at the instance of issuing the Circular or if it appears that the objectives expected from the said Fund could be achieved under the state budget approved by the Government Appropriation Act, steps should be taken to abolish those funds and it is not necessary to obtain Parliamentary approval therefor.</p>	<p>Action should be taken in terms of provisions in the Constitution.</p>

## 2.3 Management Activities

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although the Secretary to the Treasury was ordered to take necessary steps to release the funds of Rs.48 billion from the General Treasury to strengthen the Fuel Price Stabilization Fund as per the decision taken at the Meeting of Cabinet Ministers held on 18 January 2021, the order had not been executed.</p>	<p>As action is being taken to release funds by considering the position of funds in the Treasury as well as priority activities due to the economic crisis arisen within the country at present, the relevant sum of Rs.48 billion had not been released so far.</p>	<p>Necessary steps should be taken to strengthen the fund in terms of the Cabinet Decision.</p>

- (b) In terms of Cabinet Decision No.20/0684/204/060 of 02 April 2020 and paragraph 02 of the Cabinet Paper of even number of 31 March 2020, a committee should be appointed to manage this Fund. However, details of the letters of appointment issued to officers of the said committee and Orders given in that regard, had not been made available to Audit.
- Necessary arrangements are being made for issuing letters of appointment formally to relevant officers.
- Appointments should be made through a formal letter and orders should be issued formally.

## 2.4 Establishment and Maintenance of the Fund

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) As per the Note submitted by the Director General of the Department of Trade and Investment Policy on 11 March 2020 to the Minister of Finance, Economic and Policy Development for approval through the Secretary to the Treasury, it had been informed that the price of crude oil in the international market had decreased by 42.5 per cent by 09 March 2020 and a barrel was about US Dollar 34.63 at the time and it was US Dollar 59.73 by the month of September 2019.	Agreed with the audit observation.	Submission of information.

According to the calculations submitted to the Audit in this regard, the price of a liter of fuel was expected to fall as follows due to the decline in crude oil prices.

Petrol 92 Octane	Petrol 95 Octane	Auto Diesel	Super Diesel	
Price Adjustment (approximately per liter) (Rs.)	12	15	14	20

- (b) The evaluations had been carried out under 04 alternatives as providing the entire provision of the advantage of this
- Agreed with the audit observation.
- Submission of information.

price reduction to the public after recovering the tax concessions granted, increasing of the tax collection and get the total benefit to the Government revenue, reducing the retail price of fuel and recovering of losses incurred by fuel suppliers during the last 05 months without changing the fuel price.

- (c) However, the approval of the Minister of Finance, Economic and Policy Development had been expected to impose surcharges under the Customs Ordinance or reduce market prices for the savings of price decrease as Rs.11 for auto diesel, Rs.15 for 95 octane petrol, Rs.20 for super diesel as per the paragraph (b) of the Note of the Director General of the Department of Trade and Investment. Agreed with the Submission of audit observation. information.
- (d) Accordingly, the surcharge to be levied with fuel related duty as follows had been prescribed with effect for a period of 02 months from 14 March 2020 by Extraordinary Gazette Notification No.2166/35 published on 13 March 2020. Agreed with the Submission of audit observation. information.

	<b>Petrol 92 Octane</b>	<b>Petrol 95 Octane</b>	<b>Auto Diesel 1</b>	<b>Super Diesel</b>
Surcharge (per liter)	0	15	11	20

- (e) Subsequently, the value of surcharge had been amended by the Extraordinary Gazette Notification as follows in the instances of the fluctuations of the price of crude oil in the international market. Agreed with the Submission of audit observation. information.

<b>Gazette No</b>	<b>Date</b>	<b>Effective Period</b>	<b>Petrol 92 Octane</b>	<b>Petrol 95 Octane</b>	<b>Rs. Auto Diesel</b>	<b>Super Diesel</b>
					<b>Rs.</b>	
2172/6	22.04.2020	02 months	26	49	24	40
2181/13	24.06.2020	02 months	0	20	12	30
2189/57	23.08.2020	03 months	0	20	12	30
2203/1	23.11.2020	03 months	0	20	12	30
2213/7	01.02.2021	From. 02.02.2021 to. 23.02.2021	0	0	0	0

- (f) The order issued by the Extraordinary Gazette Notification No. 2203/1 dated 23 November 2020 had been cancelled by the Extraordinary Gazette Notification No. 2213/7 dated 01 February 2021 with effect from 02 February 2021. Agreed with the Submission of audit observation. information.