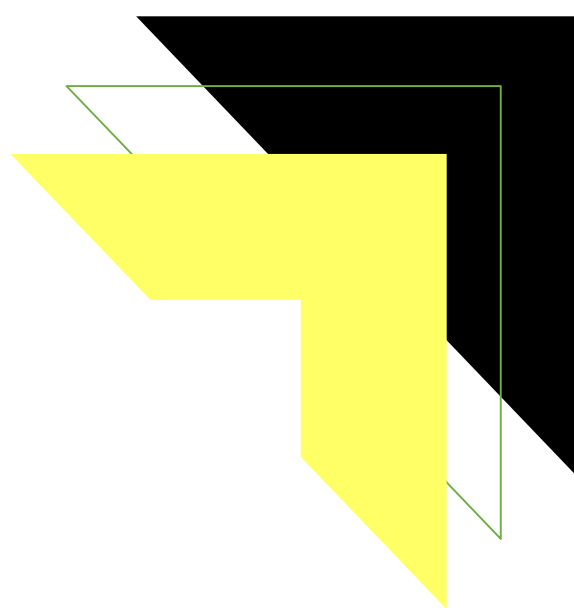


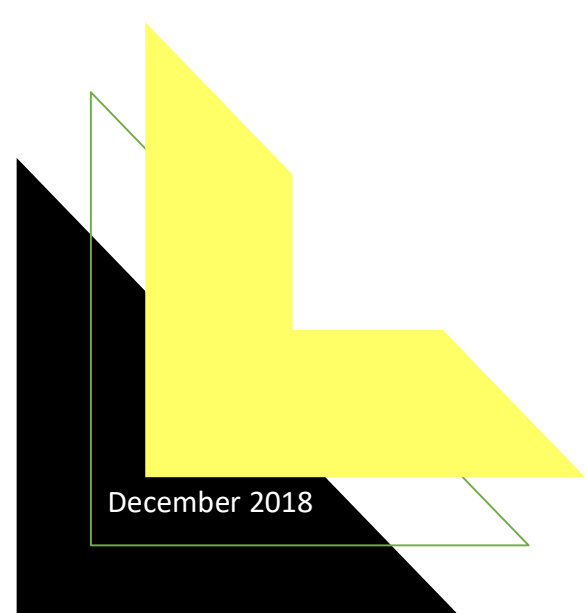


AUDITOR GENERAL'S
DEPARTMENT OF JAMAICA



A Review of Aspects of PCJ and a Comprehensive Audit of Petrojam Limited

Compendium Audit Report



December 2018

"A Better Country Through Effective Audit Scrutiny"

Foreword

The Petroleum Corporation of Jamaica (PCJ) is a statutory organization created by the Petroleum Act, with the exclusive right to explore and develop the petroleum resources of Jamaica. It is also the Government agency charged with the responsibility for facilitating the development of the country's energy resources in a manner that supports the overall strategy for national development in support of the National Energy Policy and Vision 2030 National Development Plan (NDP). PCJ's subsidiary Petrojam's primary function is to import and convert crude oil into various types of petroleum products for supply and use in the domestic market. Both PCJ and Petrojam's governance practices and financial operations are subjected to the Public Bodies Management & Accountability (PBMA) Act, GOJ Corporate Governance and Accountability Frameworks and applicable guidelines issued by the Ministry of Finance and the Public Service (MoFPS).

Stemming from public concerns regarding mismanagement at Petrojam, I commissioned a comprehensive audit using the performance, compliance and special audit methodologies, as well as financial statements assessment of Petrojam. I also reviewed specified areas of PCJ to assess whether its practices were consistent with the principles of good financial management and whether the practices accorded with GOJ Guidelines and good practices, to attain value for money. I also sought to assess whether PCJ provided robust oversight to Petrojam, based on its parent subsidiary relationship. This report is a compendium of the findings of the reviews of both entities.

The audit revealed a number of deficiencies, which have since been brought to the attention of the management of PCJ and Petrojam. I have proffered a number of recommendations for implementation aimed at strengthening the governance arrangements at both entities. However, I believe that these recommendations are of relevance to all public bodies and should be considered by the Office of the Cabinet and Ministry of Finance and the Public Service (MoFPS) for sector-wide implementation.

Thanks to the management and staff of Petrojam and PCJ for their co-operation and assistance during the audit.



Pamela Monroe Ellis, FCCA, FCA
Auditor General

Table 3 Analysis of Oil Loss Task Force Deliverables

No.	Oil loss reduction measures	Cost as at August 2018 US\$	Benefits	Timeline for Completion/ Installation	Status
1	Tank Master	430,000	Monitor custody transfer	Dec. 2017	Not achieved
2	Crude Charge – Mass Flow Meter	-	Accurately measure the unit's crude oil consumption, which is a pivotal number for oil loss calculations	Dec. 2017	Not achieved
3	Water draw off interface detector	-	Reduce the possibility of spills or losses through drainage process.	Dec. 2017	Not achieved
4	Dock Lines Metering	-	Record all transfers between dock and land	Dec. 2017	Not achieved
5	Flare Meters	28,000	Accurately measure flare's steam and pilot gas consumptions	Dec. 2017	Not achieved
6	Audit and Calibration of slop and Rundown Meter	26,100	To ensure meters are performing optimally	Sep. 2017	Achieved
7	LPG Meter Prover	506,711	Accurately measure LPG received during custody transfer from marine vessels	Feb. 2018	Not achieved
8	PSV Audit and Flare Sizing	-	To determine the need to resize current flaring system	Oct. 2017	Not achieved
	Total Cost	990,811			

Source: AuGD's analysis of Petrojam's Task Force Report by Petrojam

3.9. Petrojam also faces the risk of not being able to diversify product offerings in a context of the switch by its main customer from HFO to Liquid Natural Gas (LNG). This underscores the need for capital investment to increase Petrojam's production and storage capacities as well as refinery efficiency, which form part of the long-delayed plan to upgrade the oil refinery.

Petrojam could not validate the volume of products received vis-à-vis volumes ordered

3.10. Petrojam does not have an efficient system to reconcile the volume of products received against the volume ordered, upon the transfer of products from ships to its storage tanks. Consequently, Petrojam made payments for the volumes billed on the suppliers' invoices without validating the actual volumes received. In keeping with industry practice, Petrojam used independent cargo surveyors to gauge the actual volume of product off-loaded by observing the pre and post-product volume readings of the ship. However, this method of reading does not accurately compensate for temperature adjustment, which normally results in a disparity between the observed volume off-loaded and the volume actually received. These factors would have accounted for its inventory inaccuracies.

²⁰ LPG meter and prover system enables the precise volume measurement of LPG can be easily established by pumping a volume of fluid at a constant pressure and filling up the prover <http://www.efreyre.com/en/products/volumetric-provers-for-lpg>