

Petroleum Development Authority of Sri Lanka 03 months ended 31 December 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Petroleum Development Authority of Sri Lanka for 03 months 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 03 months then ended and notes to 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Authority as at 31 December 2021, and its financial performance and cash flows for 03 months then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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.

1.3 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 determines 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 Authority'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 Authority or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Authority 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 Authority.

1.4 Scope of Audit

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.
- An understanding of internal control relevant to the audit was obtained 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 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 Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit 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 audit report. However, future events or conditions may cause the Authority 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 Authority and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Authority has performed according to its powers, functions and duties;
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance	Comment of the Management	Recommendation
According to Sri Lanka Public Sector Accounting Standard 11, capital grants of the Government should have been recognized as revenue of the Authority. However, the equipment the assessment value of which amounted to Rs. 9.7 million, existed at the beginning of the period, had not been brought to accounts under the donations cumulative fund, and shown under non-current liabilities. Furthermore, no relevant disclosures had been made in that connection in the financial statements.	Acknowledged. Corrective measures will be taken on this error.	Sri Lanka Public Sector Accounting Standards should be complied with.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
a) The opening assets and liabilities had not been recognized at the inception of the Authority.	Action will be taken to adjust the value of Rs. 793,894 recognized as expenses of the	The opening assets and liabilities should be correctly

Miscellaneous expenses totalling Rs. 793,894 relating to the preceding period, had been brought to accounts as an expenditure of the period under review. Furthermore, the refundable deposit of Rs. 3,624,642 paid in respect of the building in which the Authority had been maintained, had not been brought to accounts as opening assets.

- year under review, to the recognized and expenditure relating to accounted for. preceding period. Furthermore, the refundable fee of Rs. 3,624,642 relating to the building obtained on lease, shall be recognized as payment of deposits.
- b) Due to failure in accounting for the accrual expenses of Rs. 2,051,778 relating to the period of 03 months of the year under review, the current liabilities and expenditure in excess of the revenue, had been understated by that amount. The value of Rs. 2,051,778 Accrual expenses recognized as accrual expenses, shall be adjusted to the current liabilities. should be correctly recognized and brought to accounts.
- c) The sum of Rs. 15.4 million being the Government revenue for the period under review mentioned in the statement of comprehensive income, had been shown by deducting the sum of Rs. 293,401 remitted to the Treasury by the end of the year. Not commented. Government revenue for the period under review, should be correctly recognized and brought to accounts.

1.5.3 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence not Furnished	Comment of the Management	Recommendation
Receivable balances	Rs. 60,000	A receivable balance of Rs. 60,000 had been included under Treasury financing in the statement of financial position, but documentary evidence in that connection had not been furnished to the Audit.	Action will be taken to correct the balance of Rs. 60,000 included in the Treasury grants.	Evidence relating to the confirmation of balances should be made available.

2. Financial Review

2.1 Financial Results

The Petroleum Development Authority of Sri Lanka had been established on 08 October 2021, and the operating result thereof for the period of 03 months ended as at 31 December 2021 was a deficit of Rs. 9,342,693. This deficit had mainly been attributed by the incurring of expenses on the establishment of administration and the Authority by exceeding the Government grants being the main source of revenue of the Authority.

3. Operating Inefficiencies

Non-compliance	Comment of the Management	Recommendation
<p>Two natural gas deposits were found in the explorations conducted in the year 2011 by Cairns Lanka Private Limited selected through international bidding in the year 2007 for exploring petroleum resources in Block M2 of the Mannar Basin. This Company had discontinued the exploration in Mannar Basin thus terminating the Agreement on 15 October 2015. Furthermore, the IHG Global Company Limited had been selected through international bidding in the year 2016 to promote sales and marketing relating to exploration and commercial production of natural gases, and an expenditure of US \$ 300,000 equivalent to Rs. 46,410,853 as per the then exchange rates had been spent by the Ministry of Energy to launch marketing programs during December 2016 and August 2018. Under guidance of the Authority, activities such as, formulation of a policy for natural gas, preparation of an Act for petroleum, and preparation of a roadmap for the period 2022-2030 had been done for this project. Nevertheless, commercial</p>	<p>In order to increase the number of explorers in a given area, the Petroleum Development Authority of Sri Lanka had decreased the large conventional area measured in thousands of square kilometers into blocks of 15*15 km in compliance to the new trends. The new exploration map had been updated restricting to 922 Blocks covering the entire 03 basins, thereby publishing in the Gazette on 11 July 2022. (Annexure 03) Measures have been taken to develop this new map along with the agreement with a view to increasing the offshore activities and expediting the strategic utilization of natural gasses identified. Furthermore, drafting the regulations for facilitating the new joint agreements, model agreements and other documents, had been completed by the PDASL by December 2022. Furthermore, with the objective of publishing in the Gazette the necessary regulations, some of the interested oil and gas companies had conducted detailed</p>	<p>The process of commercially producing natural gasses in this Block should be expedited.</p>

production of natural gas in this Block had not been commenced even up to the end of the year under review.

discussions at the data centers of the PDASL in the year 2022. The national petroleum database had been updated with new and amended data in the year 2022.