

**1. Financial Statements**

**1.1 Disclaimer Opinion**

The audit of the financial statements of the Petroleum Development Authority of Sri Lanka (“Authority”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Authority. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

**1.2 Basis for Disclaimer of Opinion**

My opinion is disclaimed on the matters described in paragraph 1.5 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 disclaimed 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 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 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 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 Audit Scope

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 Authority'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 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 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 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; and
- 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 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
<p>The ledger accounts had not been maintained in the General Ledger for the Staff Loan Interest of Rs. 20,632, Bank Interest on USD Account of Rs. 1,780,156, FD Interest of Rs. 3,377,325 and Exchange gain on Fixed Deposits of Rs. 1,742,230. However, it was reflected on the trial balance used for the preparation of financial statements. Further, the detailed schedules for these balances had not presented for the audit.</p>	<p>Agree with the observation and relevant officers are advised to maintain ledger accounts for Staff Loan interests, Bank interest on \$ account, FD interest and exchange gain on FD and disclose them in the final accounts.</p>	<p>The General Ledger should be maintained including all ledger accounts of the entity.</p>

### 1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>(a.) SLPSAS 01- Presentation of financial statements.</p>		
<p>(i.) According to the paragraphs 63 (d), (e) and paragraph 65 of the Standard, the currency of presentation of financial statements and the level of rounding used in presenting financial amounts in order to clearly identify and to obtain a proper understanding of each element of the financial statements shall be disclosed in the financial statements. However, the authority had not disclosed the type of currency and currency rounding off values.</p>	<p>Agree with the observation and advised the officers to disclose the type of currency and currency rounding values.</p>	<p>The Management shall comply with the provisions of the standard.</p>
<p>(ii.) According to paragraph 150 (a), (b) of the Standard, an entity shall disclose a description of the entity's domicile and legal form and the nature of the entity's activities, and the principal activities. However, the authority has not disclosed the domicile and legal form, the nature of operations and main activities of the authority.</p>	<p>Authority acknowledges this and advised the officers to disclose the information mentioned in the para (ii).</p>	<p>The Management shall comply with the provisions of the standard.</p>
<p>(b.) The board of directors of the authority approved Financial Statements on 28 February 2024. According to paragraph 24 and 25 of Sri Lanka Public Sector Accounting Standard 06 - Events after the Reporting Date, an entity shall disclose the date when the financial statements were authorized for issue. However the Authority had not disclosed the date when the financial statements were</p>	<p>Agree with the observation and necessary actions will be taken to disclose the date of the authorization and the person who authorize</p>	<p>The Management shall comply with the provisions of the standard.</p>

authorized for issue and who gave that authorization.

the financial statements.

(c.) According to paragraphs 16 and 34 (a), (b) of Sri Lanka Public Sector Accounting Standard 14 – Related Party Disclosures, related party disclosures in the financial statements must be made. However the Authority had not disclosed the necessary information about the remuneration of the following key management personnel in the financial statements for the year under review.

As per the SLPSAS – 14, advised the officers to disclose remuneration of the key management personal in the financial statements.

The Management shall comply with the provisions of the standard.

Related Party	Relationship	Transaction	Rs.
Mr. Surath Owitagama	Chairman 01.10.2023 – Up to now)	Short-term employee benefits	11,436,4 82
	Director General (10.10.2021 – 30.09.2023)		
	Other Members of Board the Board		
	Sitting Allowance		
			230,000

(d.) The authority has paid Rs. 1,246,522 as retirement gratuity in the year 2023, however as per paragraph 141 (c) (vi) of Public Sector Accounting Standard No. 19 - Employee Benefits, the details of the retirement gratuity paid had not been disclosed in the relevant notes to the financial statements.

As per the SLPSAS – 19, advised the officers to disclose retirement gratuity in the relevant notes.

The Management shall comply with the provisions of the standard.

### 1.5.3 Accounting Policies

#### Audit Issue

According to the statement of financial position, Petroleum Data Purchase of Rs. 926.5 mn had been identified as non-current assets and as per the Note No. 10, Petroleum Data Purchase represents survey data obtained with the agreement of TGS-NOPEC Geophysical Company ASA in Norway and Ceylon Petroleum Corporation. This value represents the amount paid by the Government of Sri Lanka to acquire the data obtained by the above foreign company during the exploration of petroleum resources in the Mannar basin of Sri Lanka few years back. This data was maintained as non-current assets of Petroleum Development Authority. Further, this data was also being stored in a foreign company as a data security measure by incurring an annual fee of Rs. 382,867. Therefore, it seems that this would be an intangible asset for the

#### Management Comment

Agree with the observation and relevant officers are advised to set appropriate accounting policy to recognize, measure and disclose petroleum data purchase of Rupees Million 926.5.

#### Recommendation

An accounting Policy for intangible assets shall be disclosed in accordance with standard and recognition, measurement and disclosures shall be done accordingly

Authority. In the years 2021 and 2022, the authority had generated Rs. 223,426,889 as revenue from sale of this petroleum data. However, no income was generated for the year under review. Therefore, it was observed that, this was an impairment indication of the underlying asset. However, the authority had not disclose the appropriate accounting policy for recognition, measurement and disclosures enable the users to understand this balance in accordance with the paragraph 09 to 15 of the SLPSAS 03 – Accounting Policies, Changes in Accounting Estimates and Errors. Further, this balance of Rs. 926.5 mn had been continued from the year 2021 without amortizing nor testing for the impairment review.

#### 1.5.4 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(a.) As per the statement of comprehensive income for the year under review, the imprest received from Treasury for the year under review was Rs. 8,600,000. From which the amount of Rs. 2,298,997 had been identified as returned to the treasury in the SOCI. However, this balance had not been physically transferred to the General Treasury. As per the explanations made by the Director – Finance (Acting), it is not required to return this money to the General Treasury. Therefore, it is required to identify imprest received from treasury of Rs. 8,600,000 as income in the SOCI. However, only Rs. 6,301,003 has been identified income for the year under review. Therefore, income over expenditure for the year under review had been understated by Rs. 2,298,997.</p>	<p>It is agreed that the total amount of Rs. 8,600,000.00 should be identified as the imprest from the treasury during the year 2023. Therefore, necessary actions will be taken to correct the amount as the cash balance of PDASL at the end of the year 2023.</p>	<p>All income accrued to the authority should be identified in the financial statement.</p>
<p>(b.) As per the bank statements of the authority, the favorable bank balance of the BOC A/C No. 88115198 as at 31 December 2023 was Rs. 2,298,997. However, this balance had not been taken in to account and not presented on the face of the statement of financial position under current assets nor the cash and cash equivalents of the statement of cash flow for the year under review. Therefore, current assets for the year under review had been understated by same amount.</p>	<p>As explained above, amount of Rs. 2,298,997.00 will be stated as the cash balance of PDASL at the end of the year 2023 in the Final Accounts 2023.</p>	<p>All cash &amp; cash equivalent balances should be included in the Financial Statement.</p>

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a.) Guideline 2.4 of the Corporate Governance for State Owned Enterprises 2021.	The Board of Directors must declare their relationship individually to the Secretary of the Board of Directors annually using the format given in Appendix II. However, any member of the board had not been made such declaration for the year under review.	PDASL acknowledges this oversight and commits to taking appropriate measures to obtain such declarations annually in the future, in accordance with Guideline 2.4 of the 2021 Corporate Governance Guidelines for State-Owned Enterprises.	Declarations shall be made by the Board of Directors as per the guideline annually.
(b.) The Petroleum Resources Act No. 21 of 2021.			
(i) Section 2(a) of the Petroleum Resources Act No. 21 of 2021.	One of the objective of the authority is to establish a Policy Advisory Committee to advice on formulation of a National Policy for the upstream petroleum industry covering the exploration, development, production, and management of all petroleum resources in Sri Lanka. However, no Advisory Committee has been set up as of October 2024.	PDASL agree that it is imperative to formulate a national policy for the emerging petroleum industry. PDASL hope to establish a policy advisory committee soon with the support of the ministry and make PDASL recommendations in respect of the National Policy on Upstream Petroleum Industry to the Policy Advisory Committee.	Actions should be taken to establish a Policy Advisory Committee to expedite the formulation of a National Policy for the upstream petroleum industry.
(ii) Section 3(3) (a) and 3(3) (c) of the Petroleum Resources Act No. 21 of 2021,	The Authority shall be responsible for making recommendations in respect of the National Policy on Upstream Petroleum Industry to the Policy Advisory Committee and performing all regulatory functions connected to the upstream petroleum industry in Sri Lanka. However, no recommendations were made in respect of the National Policy on Upstream petroleum Industry to the policy Advisory Committee and performing all regulatory functions connected to the upstream petroleum industry in Sri Lanka.	PDASL agree that it is imperative to formulate a national policy for the emerging petroleum industry. PDASL hope to establish a policy advisory committee soon with the support of the ministry and make PDASL recommendations in respect of the National Policy on Upstream Petroleum Industry to the Policy Advisory Committee.	-do-
(iii) Section 4(b) of the	The authority has a duty to promote and market acreage available for	The following two regulations were gazette on 05.01.2023.	Actions should be taken to resolve

<p>Petroleum Resources Act No. 21 of 2021.</p>	<p>investment in the blocks as demarcated and designated. However, the authority was not able to promote and market the identified 922 blocks available for investment due to unavailability of approved regulations to promote and market the available plots.</p>	<p>i. Petroleum Resources (Joint Study Agreements) Regulation No. 01/2023  ii. Petroleum Resources (Service Provider Licensing) Regulation No. 02/2023</p>	<p>identified issues and expedite to promote and market the 922 blocks available for investment.</p>
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In line with the published regulations, Cabinet approval was initially sought to invite expressions of interest (EOIs) for Joint Studies (JS). However, the Cabinet decision (CP No. 23/1338/621/056) dated 19.07.2023 approved calling for EOIs after addressing legal defects and other issues highlighted in the accompanying observations related to the published Joint Study Agreement (JSA) regulations and the block map. Throughout 2023, the PDASL focused on resolving these issues, including preparing the block map with the Survey Department's assistance and revising the JSA regulations.

<p>(iv) Section 4(f) of the Petroleum Resources Act No. 21 of 2021</p>	<p>The authority has the power to issue such directions and guidelines as may be required to regulate petroleum operations. However, no regulations issued by the authority to regulate the petroleum operations.</p>	<p>- Do -</p>	<p>Prompt actions should be taken to prepare and issue directions and guidelines to regulate petroleum operations.</p>
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**2. Financial Review**  
**2.1 Financial Result**

The operating result of the year under review amounted to an expenditure over income of Rs. 116,970,816 and the corresponding expenditure over income in the preceding year amounted to Rs. 11,626,790. Therefore a deterioration amounting to Rs. 105,344,026 of the financial result was observed. The main reasons for this deterioration were reduction of imprest from General Treasury by Rs. 65,246,539, incurred a foreign exchange loss of Rs. 22,435,568 for the year under review when compared to the foreign exchange gain of Rs. 16,192,355 for the preceding year and increase of finance and other expenses by Rs. 10,826,775 compared to the preceding year.

## 2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease were as follows.

Line Items -----	2023 ----- Rs. 000'	2022 ----- Rs. 000'	Variance ----- Rs. 000'	Percentage ----- %
Revenue	6,301	73,846	(67,545)	(91)
Other Income	6,920	1,048	5,872	560
Foreign Exchange Gain/(loss)	(22,435)	16,192	(38,627)	(239)
Administrative & Establishment Expenses	96,916	93,918	2,998	3
Research and Development Expenses	-	8,783	(8,783)	(100)
Finance & Other Expenses	10,840	13	10,827	83,285
Income over expenditure	(116,971)	(11,627)	(105,344)	906

## 3. Operational Review

### 3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
<p>(a.) The authority is carrying out its operations in a rented space of the Ceylinco Building from October 2021. The rental of the square feet was Rs. 245 per month and 8,512 square feet were rented by the authority. Therefore, the total amount of Rs. 28,937,103 had been incurred for the year under review as rental expenses. The rental expenses was incurred by the public funds allocated by the general treasury. However, it was observed that only 11 officers were employed during year under review and 10 officers were employed as of September 2024. Therefore, large amount of idle spaces were observed during the audit. The lease agreement had expired on 20 July 2023 and the authority had extended the agreement by year on year basis without following competitive procurement process.</p>	<p>Office space for PDASL has been rented from the Ceylinco Building since 2011 where the Petroleum Resources Development Secretariate was existed and at that time around 36 employees and 5-6 trainees were occupied in this premises. This rent agreement was expired on July 2023 and Competitive Bidding Process was followed to select a suitable place for the PDASL. However, the responsive bidders had quoted their prices in USD. Further, substantially responsive bidder had imposed a condition to deposit huge amount in USD. Furthermore, exchange rates were considerably fluctuating at that time. Decision of the selected bidder by procurement committee was forwarded to the approval of the Director Board of PDASL. Even though, the representative to the board from treasury had objected to the decision and the process was discontinued. Hence, PDASL had to extend the existing agreement with the Ceylinco Building for 2024/2025.</p>	<p>The procurement of building for the authority should be done in competitive and economical manner.</p>



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| <p>(b.) The authority had not taken necessary actions to introduce self-contributory insurance scheme for their employees even though the facility had been provided by the National Insurance Trust Fund. Instead the authority has spent Rs. 2,079,158 for insurance premium from the funds provided by the general treasury for the year 2023 (2022 - Rs. 1,193,479) for obtaining insurance cover without the approval of the Board of Directors. The National Insurance Trust Fund has extended self-contributory insurance scheme for semi-government sector employees by charging a contribution of Rs.1000 per employee per month in the year 2017. However, the authority has spent Rs. 189,014 per employee for the year 2023 for the medical insurance cover.</p> | <p>Agree with the observation and necessary actions will be taken to introduce suitable medical insurance scheme for employees.</p> | <p>Necessary actions should be taken against the responsible parties for obtaining insurance coverage without approval of the board of directors and prompt action should be taken to introduce self-contributory insurance scheme which is most economical to the authority.</p> |
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### 3.2 Procurement Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>According to the procurement plan of the authority, the six (06) main procurement activities valued at Rs. 45 mn had been planned to be implemented during the year under review. However, no any procurement activity had been implemented during the year under review.</p>	<ul style="list-style-type: none"> <li>• The most activities in the approved procurement plan) were planned to be implemented in alignment with the progress of announcement of Joint Study (JS) Agreements and entering into JS agreements with qualified investors. However, due to legal defects and other issues following the publication of the Joint Study (JS) regulations in 2023, the announcement of JS programs faced continuous delays. Accordingly, in the future, the tasks related to the matters included in the procurement plan will be widely implemented based on the progress of the JS activities.</li>   <li>• The PDASL technical officers were not allowed to participate in some international summits due to government foreign travel restriction decisions and therefore the implementation of planned procurement activities under No.07 in the procurement plan could not be achieved.</li>   <li>• In line with point 2 of the procurement plan, PDASL invited and evaluated bids to relocate to a smaller, well-located office space. However, the Board was not convinced to approve the move due</li> </ul>	<p>The Authority should ensure that the viability of activities to be included in next year procurement plan.</p>

to rental payment terms involving variable rates linked to dollar conversion.

### 3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>Approved cadre of the Authority as of 31 December 2023 was 33 posts, the actual staff was 10 and number of vacancies was 23 as of September 2024. According to the Section 13.3 of the establishment code of the democratic socialist Republic of Sri Lanka probationary appointments shall be made only as a temporary remedy pending a permanent appointment. If a post requires the services of a full-time officer, regular appointment should be made without delay. However, the 02 permanent post from the year 2022 and 02 permanent posts from the year 2023 had been filled on temporary basis.</p>	<p>PDASL facilitated local and international training workshops for its staff and other government agencies on Methane Abatement, Carbon Capture Utilization and Sequestration, and Hydrogen Technologies. These sessions, led by Deloitte and ICF, were funded by the U.S. Department of State’s Bureau of Energy Resources and the U.S. Department of the Interior, with no cost to the Sri Lankan government. However, the planned government funded programs were not implemented due to foreign travel restrictions and staff availability.</p>	<p>The board shall decide and get approval for the optimal level of staff requirement for the authority.</p>

### 3.4 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
<p>Two vehicles worth Rs.16, 500,000 had not been used for long period of time and in a state of inactivity as of the audited date.</p>	<p>The vehicle bearing No. WP-KU-8959 has been reserved as the official vehicle of the Director General and it is rarely used since the position is currently vacant. However, relevant officers are advised to repair the damages caused by rats.</p> <p>At present only one driver is working in the authority and it is difficult for one person to carry out the maintenance of 4 vehicles along with driving duties. The vehicle WP-PB-7708 can also be used again after its battery has been repaired.</p>	<p>Action should be taken to ensure the safeguard and maintenance and utilization of vehicles efficiently and effectively.</p>