

Head 119 – Ministry of Energy

1. Financial Statements

1.1 Qualified Opinion

Head 119 – The audit of the financial statements of the Ministry of Energy for the year ended 31 December 2025 comprising the statement of financial position as at 31 December 2025 and the statement of financial performance and cash flow statement for the year then ended, and the notes to the financial statements including material accounting policy information 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. The summary report containing my comments and observations on the financial statements of the Ministry of Energy was issued to the Chief Accounting Officer on 29 May 2026 in terms of Section 11(1) of the National Audit (Amended) Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Chief Accounting Officer on 01 July 2026 in terms of Section 11(2) of the Audit Act. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements of the Ministry of Energy as at 31 December 2025 give a true and fair view on the financial position and its financial performance and cash flows and on all the material respects in compliance with the basis of preparation of the financial statements set out in Note 01 related to the financial statements.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Emphasis of Matter - Basis of Preparation of Financial Statements

I draw attention to Note 1 to the financial statements which describes the basis of preparation of these financial statements. The financial statements have been prepared for the use of the Ministry of Energy, General Treasury and Parliament in accordance with the Financial Regulations 150 and 151 and Public Accounts Guideline No. 02/2025 dated 17 December 2025. Therefore, these financial statements may not be suitable for other purposes. My report is intended only for the use of the Ministry of Energy, General Treasury and Parliament of Sri Lanka. My opinion on this matter is not modified.

1.4 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The Chief Accounting Officer is responsible for preparing financial statements that give a true and fair view in all material respects in accordance with Financial Regulations 150 and 151 and Public Accounts Guidelines No. 02/2025 dated 17 December 2025, and for determining such internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

In terms of Sub-section 38(1)(c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

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 summary 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement 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 internal control.
- Evaluate the overall presentation, Structure and contents of the financial statements including the disclosures and whether the financial statements represent the underline transactions and events in a manner that achieves fair presentation.

- 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.

I communicate with the Chief Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.6 Comment on the Financial Statements

1.6.1 Accounting Deficiencies

(a) Revenue Receipts

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
According to Cabinet Decision No. CP/23/0632/621/031 dated 25 April 2023, the annual fixed registration fee for the lubricant industry was Rs.6,000,000, and an additional 0.9% of the annual sales value. The annual fixed registration fee should be deducted from that calculated value and the balance amount should be charged as variable registration fee. As per the clause 3.5 of the agreement entered into with licensees, the licensed entities should submit information regarding imports and sales to the Ministry and the Public Utilities Commission of Sri Lanka on monthly basis within 14 days after the end of each half-year, and audited annual information within 06 months. Although 16 out of the 35 entities that obtained annual licenses in 2025 paid variable registration fees based on self-assessment, the steps had not been taken to correctly identify variable registration fees in accordance with agreements. According to sample audit testing, the steps had not been taken to collect a variable registration fee of Rs. 20,523,031 due on lubricant sales revenue or to account as revenue in arrears as per the quarterly reports of one company for the year 2025.	Information regarding these sales revenues in previous years had been collected by the Public Utilities Commission of Sri Lanka. A new digital methodology is expected to be introduced immediately to collect accurate information for future proceedings.	Action should be taken to collect registration fees and variable revenue within the relevant period in accordance with the agreement.

(b) Property, Plant and Equipment

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The Polipto Lanka (Private) Limited was established in 2009 with a 60 percent Ministry ownership and at a cost of more Rs. 300 million including initial capital, with the main objective of producing fuel from waste plastic/polythene. Since this objective was not achieved, an agreement for operation and maintenance had been signed on 26 September 2018. Under this agreement, the amount of Rs. 82,019,500 receivable by the Ministry from the manufacturer within a period of 10 years starting from 2018 had not been disclosed in the financial statements as a receivable. Further, the valuation of a motor vehicle assessed at Rs. 1,250,000 had not been taken into account when calculating the amount receivable by the Ministry.	The Ministry was informed that the valuation of the Toyota Crew vehicle owned by Polypetro Lanka (Pvt) Ltd could not be done by the Government Valuation Department. At that time, other valuation amounts totaling Rs.82,019,500 were obtained through the KL/LM valuation report, and the relevant Operation and Maintenance Agreement was prepared accordingly. Subsequently, the valuation of the vehicle was determined at Rs.1.25 million by the Ceylon Automobile Association. Although this value was not mentioned in the agreement, it remains with the company as a government asset. Its total valuation amount is Rs. 83.269 million.	The steps should be taken to recover the receivable values and disclose them in the notes to the financial statement.

(c) Advance Account Balances

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
An advance payment of Rs.2,130,000 paid during the year under review for the Workers' Congress Building, which was obtained on a lease basis for two years by the Ministry of Energy, had been accounted as an expense for the year. Consequently, the advance payment made beyond the accounting period had not been accounted to reflect the Government's equity in the Republic Account.	The steps will be taken in the year 2026 to account the advance payment of Rs.2,130,000 paid during the year under review for the Workers' Congress Building which was leased for two years by the Ministry, under Account 9188 (Rent and Work Advance Account) and Account 9189 (Rent and Work Advance Reserve Account).	When the accounts are prepared, the advance payments made should be recorded in the correct accounts.

2. Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The following recommendations made by me on the financial statements of the preceding year had been implemented.

3. Financial Review

3.1 Revenue Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
According to the financial statements of the Ministry, the revenue in arrears including outstanding license fees as at 31 December 2025, amounted to Rs. 650,522,043. Within this amount, A sum of Rs. 17,432,823 was to be received for over one year, which included a tar registration fees amounting to Rs. 4,400,000 and the recovery of this tar registration fee remained uncertain. Further, regarding the recovery of these funds, the Ministry had only issued reminder letters and had not taken any other actions.	The letters have now been issued informing the relevant entities regarding the outstanding registration fees and variable fees, requesting payment. By 30 June 2026, it is expected to obtain relevant calculation reports from all entities related to the lubricant sector, appoint a suitable committee to confirm the calculations, and verify their accuracy. Moreover, in the absence of a regulatory authority, it has been difficult to obtain the assistance of an expert/consultant in the lubricant sector to examine these reports.	The steps should be taken to identify revenue in arrears, investigate the reasons for non-receipt, and recover the outstanding amounts.

3.2 Expenditure Management

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Although an annual budget allocation of Rs.7,000 million had been allocated for the Kerawalapitiya Port Second Underground Transmission Line Project, reductions of Rs.5,800 million and Rs.716.96 million through supplementary estimate provisions and F.R. 66/69 transfers respectively reduced the total net provision to Rs. 483.03 million.	The discussion about loans for the project were held on 08 November 2024. Accordingly, the provisions for the first year were forecasted and allocations were made for 2025. Due to the enactment of the Public Debt Management Act No. 33 of 2024, a re-financial evaluation was required for the project, and Cabinet	The steps should be taken to implement the projects by preparing Pre-Readiness Plan, and proper supervision regarding physical construction should be maintained.

Further, even if the loan agreement related to this project came into effect on 15 December 2025, this expenditure had remained completely unspent by the end of the year under review since the project was not implemented as anticipated.	Approval to sign the loan agreement was received on 04 August 2025. However, due to the delay occurred, the allocation for the year 2025 was restricted to a minimum amount representing a 10 percent advance payment. Subsequent to the Cabinet Approval, the Letter of Intent for contract award was issued on 18 August 2025, and the agreement was signed on 25 November 2025. However, as the loan agreement became effective on a day close to 26 January 2026, no funds could be disbursed within 2025. This delay occurred due to matters beyond the control of the Ministry.	
(b) Annual budget allocations of Rs.1,000,000 each had been allocated for identified activities of the New Habarana Kappalthurai Transmission Development Project CEATP 1 (AIIB) and the Sampur Kappalthurai Transmission Development Project. Even if the project procurement process had been initiated in August 2025 without preliminary plans or policy approval for procurement, the tenders could not be awarded as the foreign loan financing institution (AIIB) recommended conducting an Environmental and Social Impact Assessment.	The procurement delays noted in the audit observation can be considered as procedural and compliance delays due to PDMO clearance, credit risk assessments, on-lending/subsidiary financing processes, Cabinet approval procedures, AIIB financial and procurement requirements, Loan Agreement negotiation/effectiveness processes, AIIB environmental and social approvals, ESIA/ESMP requirements, and technical coordination needs. Consequently, these delays were not caused by inaction on the part of the executing agency, but rather were due to completion of the required approval and clearance processes to proceed in compliance with government and AIIB procedures.	The required actions should be taken in a timely manner to execute projects according to a Pre-Readiness Plan, and proper supervision regarding payments for physical construction and project implementation should be maintained.
(c) The funds had been given by the Japan International Cooperation Agency (JICA) under the Capacity Development Program for the implementation of the Master Plan in the Power Sector to train	The operations of the Power Sector Reform Secretariat were carried out by the Director General who served during that period; specifically from 16 October 2024 to 16 October	Training plans should be prepared to achieve the intended objectives.

the staff of the Power Sector Reform Secretariat. Since the staff training plans were not prepared, no training was conducted in 2025, and the entire allocation of Rs.600,000 had remained completely unspent.

2025, and from 27 October 2025 to 15 January 2026, and the staff of the Ministry Secretariat. Accordingly, the proceedings were not made to recruit separate external staff for the Power Sector Reform Secretariat. Consequently, no expenditure has not incurred from the funds allocated for this capacity development program.

3.3 Entering into Liabilities and Commitments

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
In terms of State Accounts Circular No. 255/2017 dated 27 April 2017, the liabilities amounting to Rs.225,438 relating to 05 categories of expenditure that should have been recognized as liabilities and commitments had not been accounted in the year under review.	The accounting could not be done due to delays.	Liabilities should be correctly identified and accounted in the financial statements.

4. Operational Review

4.1 Vision and Mission

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The mission of the energy sector is "To ensure an environmentally friendly sustainable energy supply that meets national requirements by increasing access to low-cost energy, managing fuel imports, adding new domestic energy sources to the energy mix, and formulating policies and regulations relating to energy in compliance with applicable laws and acts" However, an appropriate energy policy for the regulation, control, and utilization of energy resources had not been formulated under the main duties and functions of the Ministry. Further, as per Cabinet Decision No. CP/06/0858/217/015 dated 08 June 2006, the instructions were issued to amend the Petroleum Products (Special Provisions)	A Cabinet Memorandum No. 26/0398/825/026 dated 25 February 2026 regarding the regulatory bodies has been submitted. Subsequent actions are expected to be taken in accordance with the Cabinet Decision received thereon.	The Ministry should formulate policies and legislation to streamline regulatory functions in the energy sector, requirement.

Act No. 33 of 2002 regarding energy regulation and legislation; although the Petroleum Products (Special Provisions) (Amendment) Act No. 27 of 2022 had been drafted, it failed to incorporate legislation on energy regulation. Consequently, risks arose including the market entry of low-quality and hazardous fuels/lubricants, absence of mandatory national fuel quality standards, improper functioning of consumer complaint and dispute resolution mechanisms, lack of regulation for value-added fuel products and performance additives, deficiencies in service quality and filling stations, lack of adequate safety oversight posing risks to consumers, environment, and national energy security, and the inability of lubricant industry stakeholders to access independent market data due to outdated market information.

4.2 Non-achievement of expected Output Level

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
A foreign consultant firm had been appointed on 14 December 2016 to select a suitable investor through an international competitive bidding process for the development and production of natural gas deposits discovered in 2011 during petroleum exploration in Block M-2 (SL 2007-01-001) of the Mannar Basin by a private company selected in 2007. The consultancy agreement expired on 13 December 2017, and the Ministry incurred an expenditure of Rs.46,610,853 (USD 300,000) for this purpose. Even if the Petroleum Development Authority of Sri Lanka was established on 08 October 2021 under the provisions of the Petroleum Resources Act No. 21 of 2021 to regulate exploration, development, extraction, and management of petroleum resources, a suitable investor had not been identified up to the date of this report.	Petroleum Development Authority of Sri Lanka planned to launch a licensing round covering a selected area in the Mannar Basin of the western coast of Sri Lanka. In collaboration with the selected marketing consultant, the proceedings were made to create a dedicated website and draft documents based on the instructions of the Attorney General's Department. However, licensing, marketing, and all related activities were disturbed due to a stay order issued by the Court regarding an ongoing court case, as well as an appeal filed against the decision after the stay order was lifted. However, PDASL plans to obtain permission from the court to proceed with the licensing round.	Future activities regarding the development and production of natural gas deposits should be carried out, and a suitable investor should be selected.

4.3 Delays in Project Implementation

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Under the Project of Supporting Electricity Supply Reliability Improvement, a contract for the construction of 285 km of 33 kV tower lines and 13 numbers of 33 kV gantries had been awarded on 28 October 2019 at a cost of Rs.7,314.05 million. The project; implemented by the Ceylon Electricity Board under 04 packages, was expected to be completed within 730 days (by 27 October 2021). However, even if the duration was extended by 1,731 days on 06 occasions up to 31 March 2026, the physical and financial progress as at 31 December 2025 was 89.02% and 73.76% respectively. Accordingly, the expected outcomes of the project had not been achieved.	Management has not submitted answers.	The activities of the contract should be completed in accordance with the Contract Implementation Plan.
(b) Although the loan provided by the Asian Development Bank for the Power System Expansion and Renewable Energy Integration Project became effective on 09 January 2025, no contract had been awarded for any of the 7 packages intended for implementing under the project. Consequently, without making any payments for project activities during 2025, only the commitment charges and interest charges amounting to Rs.49,045,534 (equivalent to USD 161,829) had incurred from the said loan amount.	Loan agreements were signed with the ADB in January 2025, and the tendering process for Packages 1, 2, 4, 5, 6, and 7 was initiated in March 2025. Although required actions were taken to award tenders for 6 packages in 2025, awards could not be finalized within the year due to appeals submitted during the tender process and legal issues. Consequently, the expected expenditures were not incurred. The shortage of staff also resulted in delays during the tendering process.	The procurement should be carried out according to a Pre-Readiness Plan, and procurement functions should be completed to achieve the intended benefits.

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| (c) | <p>The estimated cost of the Moragolla Hydropower Project under the Green Power Development and Energy Efficiency Improvement Investment Program (Phase 1) was Rs. 19,288 million. According to the project loan agreement, the activities had been scheduled to be started in 2014 and concluded by 30 September 2019. However, due to the lack of proper planning and inadequate feasibility studies, Lot No. 01 of the project had to be redesigned at the request of the Ministry of Mahaweli Development and Environment, and an environmental study had to be conducted following the discovery of an endemic fish species. Consequently, physical work commenced with a delay of 03 years compared to the original schedule. However, by the end of the year under review, the overall physical and financial progress was 91.6% and 70% respectively, and the project duration has been extended to 31 December 2026.</p> | <p>The previous loan agreement expired in December 2024, and a loan amount of USD 15 million was obtained for 2025–2026. The cyclone “Ditwah” which hit on 26 November 2025, severely impacted this project, leading to a further extension of the completion deadline. The particulars pointed out are accepted.</p> | <p>The fact whether contract activities are completed per the Contract Implementation Plan should be monitored. The projects should be completed implemented to obtain the intended benefits.</p> |
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4.4 Procurements

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
According to Procurement Guideline 2.2.1(g) of the Procurement Manual, the Chief Accounting Officer is required to submit a consolidated 'Procurement Performance Report' prepared based on detailed annual procurement plans of relevant procurement entities; stating actual quantities, status, cost, and time targets along with the name of each supplier/contractor/service provider, to the National Procurement Commission on quarterly basis. However, as at 30 March 2026, the Ministry of Energy had not complied with this guideline.	The annual and bi-annual procurement compliance reports required for procurement activities of the Ministry have not been submitted to date. However, the said compliance reports will be prepared and forwarded to the National Procurement Commission in the future.	The steps should be taken to submit the Procurement Performance Report to the National Procurement Commission on quarterly basis.

4.5 Uneconomic Transactions

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The Ministry had failed to recover damages amounting to Rs. 1,999,373 in terms of F.R. 104(4) with respect to 09 vehicle accidents as at 31 December 2025.	The damage of Rs. 260,828.57 related to the Vehicle No. PC-4318 is to be recovered from the driver. Vehicle No. HE-2381 belongs to the Ceylon Electricity Board (CEB), and legal action is being taken by that institution to recover the damages. Vehicle No. 65-2067 belonging to CEB was involved in an accident while it had been assigned to the Ministry. The Attorney General's Department informed that CEB holds no documents for this, but prosecution is possible if sufficient supporting documents are produced. The instructions have been requested from the Attorney General regarding Vehicle Nos. KF-1999 and PF-5094. Receivable amount related to the Vehicle No. PH-1148 and the bill related to the sum of Rs. 117,000 spent for the repair of the Vehicle No. PH-1150 has been referred to the Attorney General for legal action. An amount is to be recovered for Vehicle No. KL-9507.	The proceedings should be made about the losses and damages as per the Financial Regulations.

4.6 Management Weaknesses

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The observations regarding the progress of implementing the National Energy Policy and Strategies of Sri Lanka, published by the Extraordinary Gazette No. 2135/61 dated 09 August 2019, are given below		

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| (i) | The implementation and monitoring of the relevant policy through a National Steering Committee, as well as the quarterly meeting of the said committee to report the progress of the implementation to the Cabinet of Ministers, had not been done. | The preliminary work for the power sector has commenced in accordance with the provisions of the National Electricity Act No. 36 of 2024 (as amended by No. 14 of 2025) to study the entire energy sector and formulate a new energy policy. An appropriate methodology for the energy sector is currently being prepared, and it is expected to be implemented with effect from 01 January 2027. | The National Steering Committee should meet quarterly and take appropriate actions. |
| (ii) | According to Paragraph 04 of the Energy Policy Statement, the steps should be taken to revise the performance timeframe every two years (by the institutions assigned with said responsibility). However, although a period of six years has passed from 2019 to 2025, no action had been taken to revise the relevant performance timeframe, and it had not been monitored by the Ministry. | In accordance with the provisions of the National Electricity Act No. 36 of 2024 (as amended by Act No. 14 of 2025), the preliminary work for the energy sector has commenced to conduct a comprehensive review of the entire energy sector and formulate a new National Energy Policy. An appropriate methodology for the energy sector is currently being prepared. The said methodology is expected to be implemented with effect from 01 January 2027. | The amendments to the performance timeframe should be submitted in accordance with audit requirements. |
| (iii) | Although the Risk Assessment Board had been appointed in accordance with Paragraph 4.1.d under ensuring energy security within the performance timeframe of the energy policy, the said board had not conducted the risk assessment activities regarding internal and external uncertainties that could have a critical impact on the performance of the energy sector. | The preliminary work for the electricity sector has been started to study the entire energy sector and formulate a new policy.

A suitable methodology for the energy sector is currently being formulated. It is expected to be implemented with effect from 01 January 2027. | A risk assessment should be carried out regarding internal and external uncertainties that could have a critical impact on the performance of the energy sector, and an evaluation should be done in that regard. |
| (b) | An acting appointment had been informally given for a post not included in the approved cadre, and a sum of Rs. 2,000,000 had been paid as salary for a period of 07 years. | It is expected to promptly introduce a new digital system to collect accurate information for future activities. | The acting appointments should be made with formal approval. If not, the necessary measures should be taken to recover the respective money from the responsible parties. |