Petroleum Development Authority - 2022

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Petroleum Development Authority for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 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 Sri Lanka Public Sector Accounting Standards

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	In terms of paragraph 53 of Sri Lanka Public Sector Accounting Standard 01 requires, disclosure of comparative information period for all numerical information reported in the financial statements for the previous, Even though, the comparative values for Statement of change of equity, property, plant and equipment, accrued expenses, sales and revenues, marketing expenses and financial and other expenses notes were not presented.	The relevant officials were instructed to prepare the financial statements so that such errors do not occur in the future.	Financial statements should be presented in accordance with the relevant financial reporting framework.
(b)	In the year under review, gratuity provision of Rs.3.5 million had been disclosed under current liabilities instead of being disclosed as non-current liabilities as per paragraph 80 of Sri Lanka Public Sector Accounting Standard 01.	Actions will be taken to identify current liability of gratuity provision as Noncurrent liability and current liability in the future according to Sri Lanka Accounting Standard No. 01.	Financial statements should be prepared and presented in accordance with the financial reporting framework.
©	The Authority had purchased Rs.926.5 million worth data from a foreign private company that had conducted petroleum exploration in the Mannar basin was stated as data purchases under the non-current assets in the statement of financial position. But the necessary comparative information required by paragraph 127 (c) of Sri Lanka Public Sector Accounting Standard 01 was not disclosed in the financial statements.	Regarding data purchases shown as non-current assets amounting to Rs.926,500,000, the information related to section 27 of SLPSAS 01 will be presented through the financial statements of the year 2023	Necessary disclosures should be made in accordance with the relevant financial reporting framework.

(d)	In terms of the paragraph 132 (c) of Sri Lanka Public Sector Accounting Standard 01, other accounting policies related to understanding of financial statements must be disclosed, but the accounting policy followed by the authority in preparing the cash flow statement was not disclosed in the financial statements.	Actions will be taken to disclose the policy of cash flow statement preparation in future financial statements.	The accounting policies used according to the relevant financial reporting framework should be disclosed in the financial statements.
(e)	Equipment donations of Rs.9.7 million related to the previous year not recognized in accordance with Sri Lanka Public Sector Accounting Standard 11, non-accounting of the refundable deposit amount of Rs.3.6 million paid for the rental building maintained by the authority and the accrued expenses of Rs.2.05 million related to the previous year had been adjusted to the accumulated fund in the reviewed year by restating the comparative values as per paragraph 47 of Sri Lanka Public Sector Accounting Standard No. 03. Also, the required disclosures were not made as per paragraph 54 of the standard.	The relevant officials were instructed to prepare the financial statements so that such errors do not occur in the future.	Errors related to prior period should be corrected in accordance with the relevant financial reporting framework.
(f)	In terms of paragraph 44 of Sri Lanka Public Sector Accounting Standard 11, the total income from non-exchange transactions is to be recognized as income for the year under review. Rs.73.8 million received as grants from the Treasury in the current year were not recognized as income in the statement of comprehensive income in the year under review and were recognized directly as net assets as government grants through the statement of change in equity. Due to that, the income exceeding the expenditure of the reviewed year was understated by Rs.73.8 million.	Actions will be taken to recognize such money received from the treasury in the current year as income of the year under review.	Revenue should be recognized in accordance with the relevant accounting standard.
(g)	According to paragraph 16 of Sri Lanka Public Sector Accounting Standard 14, disclosures about related parties in the financial statements must be made, but necessary information about the remunerative of the key management team were not disclosed by the authority in the financial statements of the year under review.	According to Sri Lanka Accounting Standard No. 14 Entity had not done any transactions with related parties (Board of Directors) of financial statement.	Disclosures should be made as per relevant financial reporting standards.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	According to Section 35(3) of the Petroleum Resources Act No. 21 of 2021, at the end of each financial year, an amount equal to 10 percent of the existing money in the Petroleum Resources Development Fund shall be paid to the Consolidated Fund. Accordingly, Rs.22 million equal to US$ 60,257.18 paid to the Treasury on 14 February 2023 for the year under review was not shown in the accounts on accrual basis as an expense of the year under review.	The officials were instructed to record the amount to be paid to the Consolidated Fund as an accrued expense from now on 31 December.	According to the Act, the amount due to the Government should be adjusted in the accounts on accrual basis.
(b)	The insurance expenses of Rs.176,049 paid in advance related to employee insurance and vehicle insurance were accounted as expenses for the year under review.	In relation to the year 2022, the employee board insurance amount and motor vehicle insurance amount paid for the next year have been adjusted in the accounts of the year 2023.	Future payments should be accurately calculated and adjusted in the accounts.
(c)	The advertising expenditure of Rs.11.7 million which had been spent for the previous year had been accounted as an expenditure of the reviewed year. Accordingly, that income which exceeded the expenditure had been understated by that amount in the year under review.	The relevant officers were instructed to identify and account for the sales expenditure and related expenditures in the prescribed period hereafter.	The expenditure for the specified period should be adjusted in the accounts.
(d)	Expense to be identified as data management fees for the year under review due to accounting of Rs.3.7 million instead of Rs.5.1 million, the income exceeding the expenditure in the current year was overestimated by Rs.1.4 million and this expense was identified as administrative expenses in the statement of comprehensive income, although it should be adjusted to calculate the gross profit as an expense incurred for the main business of the authority.	This payment is for the years 2021 and 2022.	The relevant expenditure should be accounted for correctly, at the appropriate place.
(e)	According to the Geophysical Exploration Service agreement signed on 23 May 2019 between a foreign company and the Government of Sri Lanka, the Sri	In future, actions will be taken to account for such income during the relevant	The relevant income, related to the year should be

Lankan government's share of US$ 683,975.75 or Rs.222.2 million to be received for the year ended as at 31 December 2021 from the revenue of data license exchange was not accounted for income receivable as at 31 December 2021.It was accounted as income of the year under review. Due to this, the income exceeding the expenditure of the year under review was overstated by that amount.	year.	accounted for correctly.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprises Circular 01/2021 dated 16 November 2021 - Operations Manual - Section 2.3	Although a process manual on how to carry out the main operations of its Institution and a process manual for administrative and financial operations should be prepared and approved by the board of directors and It should be reviewed and updated from time to time, It had not done accordingly.	Actions are taking to Proceed as per circulars - Section 2.3	The authority should be acted in terms of circular provisions.

2. Financial Review
Financial Result

The operating result of the year under review amounted to a surplus of Rs.131,654,824 and the deficit for the 03 months, commencing on 08 October 2021 and ending on 31 December 2021,was Rs.9,342,693.

3. Operational Review

3.3 Management Activities

Audit Issue	Management Comment	Recommendation
Out of the loan amount of Rs.926 million given to the Authority by the Treasury in 2006 for the purchase of petroleum exploration data in the Mannar Basin, Rs.238 million remained to be paid on 31 December 2022. According to the letter of Director General of Treasury Operations Department No. TO/REV/SL/2/91 dated 01 June 2022, the authority had agreed to pay 10 percent of its annual income annually. Accordingly, in the year under review, Rs.22,342,689 should be paid to the Treasury, but only Rs.5,652,180 was paid.	The remaining amount to be sent to the Treasury Department from the income received in the year 2022 will be arranged to be sent in the current year.	10 percent of its annual revenue should be paid by the Authority to the Treasury as agreed.