

Head 119 – Ministry of Energy

.1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Head 119 –Ministry of Energy for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance and cash flow statement for the year then ended 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 09 June 2025 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Chief Accounting Officer on 23 July 2025 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 2024 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. 06/2024 dated 16 December 2024 as amended on 21 February 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. 06/2024 dated 16 December 2024 as amended on 21 February 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 Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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 Revenue Receipts

1.6.1 Accounting Deficiencies

(a) Revenue Receipts

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
As per the Cabinet Decision No. CP/23/0632/621/031 dated on 25 April 2023, an annual fixed registration fee of Rs.6,000,000 should be levied for the lubricant industry, in addition to which, based on the annual sales volume, an amount of 0.9 percent of the said value should be deducted from the annual fixed registration fee and the remaining amount should be charged as variable registration fee. In accordance with clause 3.5 of the agreements entered into by the Ministry with each licensee, the licensee institutions should submit monthly information related to imports and sales to the Ministry and the Public Utilities Commission on a monthly basis and half-yearly information within 14 days of the end of the half-year and the annual audited information before the expiry of 06 months as requested by the Ministry. Only 13 institutions that obtained annual licenses in the year 2024 had paid variable registration fees on self-assessment. The Ministry had not taken actions to accurately calculate and recover the variable registration fees for the years 2023 and 2024 by obtaining and verifying the relevant information from the licensees in accordance with the agreement or to identify the outstanding variable registration revenue in the outstanding revenue statement. Due to this, the outstanding revenue could not be accurately	Until year 2022, the relevant variable registration fee was charged by the Public Utilities Commission of Sri Lanka. However, as per the Cabinet decision No. CP/23/0632/621/031 dated 23.04.2023, it was decided to collect both the relevant fees by this Ministry. Accordingly, the Public Utilities Commission of Sri Lanka stopped updating the sales information related to the term of lubricant oil industry by the year 2024. Accordingly, the relevant variable fees were collected according to the information obtained by this Ministry and at present, this Ministry and the Public Utilities Commission of Sri Lanka have reached an agreement to continue the relevant activities properly including the years 2023 and 2024. Accordingly, this Ministry is expected to obtain the approval of the	Action should be taken to collect government revenue as per the decision of the Cabinet of Ministers.

monitored. Based on the lubricant market information published by the Public Utilities Commission for the year 2023, the outstanding variable registration fee for lubricants calculated by the audit for the years 2023 and 2024 was Rs.231 million.

Cabinet for the provision of funds for the relevant photo regulation activities in the near future.

(b) Property, Plant and Equipment

The following deficiencies were observed in accounting for Property, Plant and Equipment.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The Ministry had signed an operation and maintenance agreement on 26 September 2018 for the restructuring of Polypto Company Limited, with a 60 percent of ownership to the Ministry. The amount of the compensation to be paid to the Ministry over 10 years by the manufacturer in terms of the agreement, was Rs.82,019,500. This had not been disclosed in the financial statements so far. The motor vehicle valued at Rs.1.25 million had not been included in the calculation of the compensation to be paid to the Ministry	This Ministry was informed that the valuation of the Toyota Crew Cab 51-7303 vehicle owned by Polypto Lanka Private Limited could not be completed by the Government Valuation Department and at that time, the other valuation values of Rs.82,019,500.00 had been obtained from the KL/LM valuation report and the relevant operation and maintenance agreement had been prepared. Later, the value of the vehicle was assessed from Lanka Automobile Company. The assessed value was 1.25 million. The amount of 1.25 million was not mentioned in the agreement, but it is held by that company as a government asset. Accordingly, the total assessed value is Rs.83.269 million. Actions will be taken to include this in the future financial statements.	The amounts receivable by the Ministry should be disclosed in the financial statements.

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
(a) Two institutions had renewed 03 licenses for the import, export, sale and distribution of aviation fuel for the year 2024. Accordingly, the revenue for the year 2024, which should have been estimated at USD 30,000, was estimated at USD 20,000.	Two companies, Cannel and Fitsoil, have been registered for the import, export, sale and distribution of aviation fuel (JET A-1) for the year 2024, and Later, Cannel has subsequently obtained another license for the installation of storage tanks and pipes on the Sri Lanka Ports Authority land. This institution has not yet started any operational activities for the installation of storage tanks and pipes and license renewal has not been carried out. Therefore, in preparing the 2024 annual estimates, only USD 20,000 was included in the amount that the two aforementioned institutions to be charged only for importing aviation fuel (USD 10,000 each institutions).	Estimates should be prepared based on the most up-to-date information available.
(b) The annual registration fees for tar trading of Rs.4,400,000 due for the years 2022 and 2023 from the Ceylon Petroleum Corporation, which were identified as outstanding income as per the Statement of unsettled Income (ACA 1(i)) in the financial statements for the year 2024,	Letters have being sent to the Ceylon Petroleum Corporation informing the company to pay the outstanding registration fees for the tar trade for the years 2022 and 2023. Although the Ceylon Petroleum Corporation is a registered company for the tar trade, it is not mandatory to pay the license fees for engaging in the tar trade according to the	Actions should be taken to recover outstanding of revenue in a timely manner.

and the annual registration fees for lubricants of Rs. 2,989,020 due for the year 2024 from a private company, had not been collected.

Petroleum Corporation Act. However, the Ceylon Petroleum Corporation has been informed through letters on several occasions to pay the outstanding license fees for the tar trade.

ENOC Marketing LLC has been informed by letter dated 28.04.2025 that if the company fails to pay the lubricant license fee of Rs. 2,989,020, the license of the company will be cancelled. ENOC Marketing LLC has been registered for lubricants since 2022 and has paid the registration fees from 2022 to the first half of 2024 and has not been engaged in business activities so far.

3.2 Management of Expenditure

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Due to the non-implementation of 05 projects, the entire net allocation of Rs. 3,406 million allocated for 05 capital expenditure codes was remained unutilized.	Construction of Hybrid Renewable Energy System in Small Islands - The project is exempted from taxes and hence the net provision has remained unutilized. The Embassy of India has constituted a Joint Project Monitoring Committee (JPMC) to take decisions on this project and release funds for this Indian Grant Project. Construction of air conditioning laboratories for energy tool naming programs - This project was exempt from taxes, therefore provisions were remained. Capacity Development Program for the Implementation of Major Plans in the Energy Sector - The program was implemented by JICA, which provided financial grants, but expenditure reports have not been provided to the Ministry for accounting.	Projects should be implemented within the stipulated time frame, spending within the allocated provisions.

Battery energy storage system being built under the grants of the Korean government -Approval of the plans for two projects has been delayed and the import of machinery has been extended to year 2025.

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| <p>(b) No provision had been made in the annual budget estimate for development assistance under the expenditure code No. 119-2-3-36-13-2202 and a provision of Rs. 300,000,000 had been allocated through a supplementary estimate. Out of the amount allocated, Rs.59,697,576 had been spent and Rs.240,302,424, was remained that was 80 percent.</p> | <p>The consultancy fee was planned to be paid in 03 installments and the first 20% has been paid. The remaining two installments of 60% and 20% should be paid and for the recommendation of that payment, the Sri Lanka Sustainable Energy Authority, the institution that implemented this project, is working to obtain relevant information from the Government of India through the Ministry of External Affairs. The provisions were left due to the Government of India not giving approval to the Detail Project Report related to the project.</p> | <p>The progress of projects should be evaluated periodically according to agreed output levels and payments should be made periodically based on output.</p> |
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4. Operational Review

4.1 Non-achievement of expected Output Level

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Petroleum Exploration in the Mannar Basin A private company was selected in 2007 for petroleum exploration in the M-2 exploration block (SL 2007-01-001) in the Mannar Basin and in year 2011, the company discovered two natural gas deposits. In accordance with the Cabinet approval No. 16/1745/746/021 dated 06 September 2016, a foreign company was appointed on 14 December 2016 to obtain the necessary technical and marketing advisory assistance to select a suitable investor for the	Dr. Neil de Silva, who held the position of Director General from 2007 to 2011 and was instrumental in bringing Cairn Lanka, which carried out petroleum exploration and excavation operations, to the country in 2011, has been reappointed as the Director General of the Petroleum	Future work should be carried out in accordance with the decisions of the Cabinet of Ministers and it is important to review this matter again.

development and production of the natural gas deposits discovered in the M-2 exploration block in the Mannar Basin through an international competitive bidding process. The consultancy agreement was concluded on 13 December 2017 and the Ministry had incurred an expenditure of US\$ 300,000 that was Rs.46,610,853 at the then prevailing exchange rates for the said work. 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 with the objective of regulating the exploration, development, extraction and management of petroleum resources in Sri Lanka and although the Joint Study Agreements and regulations relating to Petroleum Resources Service Providers' Licenses and the Sri Lanka Petroleum Resources Exploration and Development Block Map had been published by that, it had not been possible to find a suitable investor for the relevant studies up to the date of audit.

Development Authority of Sri Lanka with effect from 18.12.2024.

Currently, under his guidance, a new strategic initiative has been planned to conduct a licensing round for 4 exploration blocks in the Mannar Basin and invite investment proposals for petroleum and natural gas exploration and production. This work of national importance received cabinet approval at the Cabinet meeting held on 07.05.2025 and further work is underway accordingly.

4.2 Foreign Aid Projects

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Under foreign aid projects, 15 development projects worth Rs.47,658 million were planned to be implemented in the year under review, and it was observed from the project progress reports that the financial progress and physical progress of 07 projects for the current year were less than 51 percent.	Delays have occurred in relation to 07 projects.	Projects should be completed within the specified time frame and the desired goals should be achieved.

4.3 Losses and Damage

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
The Ministry had not recovered damages of Rs. 2,676,191 in terms of Section 104(4) of F.R ,in respect of 04 vehicle accidents for which investigations were completed as at 31 December 2024.	It has been informed that the insurance company will cover the loss in relation to the accident involving vehicle PH-2913. Regarding the accident involving vehicle PC-4318, the relevant details have been forwarded to the insurance company to obtain insurance coverage and to receive compensation. The CEB Legal Officer has informed the Ministry that legal action will be taken against the driver of vehicle 59-8950, who was responsible for the accident, to recover damages in connection with the accident involving vehicle HE-2381. Actions are being taken to recover the remaining amount regarding the CAF 5016 vehicle accident.	Action should be taken to recover losses from the responsible parties.

4.4 Management Weaknesses

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Polypto Lanka Private Limited	Polypto Lanka Private Limited was established in 2009 under the Ministry of Environment and Natural Resources and was placed under the Ministry of Petroleum Resources Development in 2011 to produce fuel	Arrangements should be made to re-settlement in accordance to the agreement.
Polypto Lanka Private Limited was established in 2009 with a 60 percent shareholding of the Ministry to produce fuel from waste plastic/polythene. The company was restructured in 2018 and an Operation and Maintenance Agreement was		

signed between the Ministry and the manufacturer on 26 September 2018. As per clause 09 of the said agreement, the assessed value of the fixed assets of the company at the time of restructuring was Rs.82,019,500. As per Clause 12 of the agreement, it was stated that the Ministry should hold 1 percent of the shares of the company until the full amount of the assessed value of Rs.82,019,500 along with the relevant interest was paid to the Ministry, contrary to this, all the shares of the company owned by the Ministry were transferred to the manufacturer on 03 October 2018. During the period from the inception of the company to the time of its restructuring, the government had incurred an expenditure of over Rs. 300 million for this company, including the initial capital. While implementing the operations of this company, which was established as a pilot project with the aim of achieving many important national objectives, as a semi-commercial project, due to the failure to conduct a proper cost-benefit analysis, failure to identify product market opportunities, and weaknesses in operational planning and management, it had not been possible to achieve the desired objectives or to obtain any benefit for the money invested by the government..

from waste plastic. The Ministry of Finance allocated funds annually for the production and administrative activities of this company until 2018. In accordance with a decision of the Cabinet, this company was restructured in 2018.

In addition to the 30 shares of the company owned by its manufacturer, the entire shareholding of 60 shares held by the government and 10 shares held by the University of Moratuwa was transferred to the company.

The company was responsible for carrying out production activities at the relevant plant owned by the company after the restructuring in accordance with the relevant operation and maintenance agreement.

However, there was a delay in obtaining the Environmental Protection License from the Central Environmental Authority for the production activities of that company for about 4 years, and the Environmental Protection License was granted to Polypito Company in 2022.

However, during discussions with this ministry, the management

of Polypto Lanka Private Limited stated that since fuel production using only plastic raw materials would be loss-making, this fuel production should also be carried out using discarded waste oil.

However, the fixed asset valuation amount of this company, Rs. 83,269,500, remains as assets of that company and a grace period of 10 years has been given to that company from the year 2018 to re-settle that amount.

The Ministry has instructed the company to take actions to further streamline the work of this project and make it successful during the current grace period.

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| <p>(b)</p> | <p>A treasury allocation of Rs.3,239,000,000 was allocated in year 2024 for the Hambantota Battery Energy Storage System Project to be constructed under the assistance of the Korean Government, the estimated cost planned for the year 2024 is USD 11,900,000, but the relevant project had not been initiated.</p> | <p>The project had not been started due to the project plan was not approved in year 2024.</p> | <p>Institutions under the Ministry should carry out proper supervision of the projects to be implemented and actions should be taken to complete those projects promptly.</p> | |
| <p>(c)</p> | <p>Implementation of National Energy Policy of Sri Lanka</p> | <p>I. The implementation of the energy policy should be monitored by a National Steering Committee and the relevant committee</p> | <p>The National Steering Committee was not empowered in the year 2024. The main reason for</p> | <p>The progress of implementing the energy policy should be monitored</p> |

should meet quarterly and report to the Cabinet on the progress of implementation, but National Steering Committee meetings were not held in 2024.	this was that it was not practical to carry out the task since there were only a few Ministry Secretaries and a few Heads of Institutions.
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| <p>II. According to paragraph 04 of the Energy Policy Statement, the institutions entrusted with the responsibility should take actions to revise the performance timeframe every two years. However, although 05 years have passed from the year 2019 to the year 2024, the said institutions had not taken actions to revise the relevant performance timeframe as required and the Ministry had not monitored those activities.</p> | <p>Although the timeframe is supposed to be revised every two years according to the National Energy Policy, this has not happened in 2024. However, a review committee has been appointed in the year 2024 to review this policy and make recommendations.</p> |
| <p>III. Under paragraph 4.8.g of the Performance timeframe on Strengthening Good Governance in the Energy Sector, all projects and investment opportunities in the energy sector should be identified and documented in an appropriate project concept format and published by each institution from the year 2020 to facilitate the participation of investors and development partners on a competitive</p> | <p>The energy performance timeframe should be revised periodically under the supervision of the Ministry.</p> <p>Identifying and publicizing existing projects and investment opportunities in the energy sector.</p> <p>A Request for Proposals (RFP) format has been prepared for inviting proposals from the private sector for project investments identified by the Electricity Board.</p> |

basis. Only the Sustainable Energy Authority had published the locations of all existing renewable energy sources in the country through a gazette notification. However, information was not submitted to the audit that the Ministry had monitored those activities in accordance with the above paragraph.

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| IV. | The Inter-Agency Coordination Authority was scheduled to be established by 2020 to resolve issues related to public service transmission and distribution lines as per paragraph 4.9.e of the performance timeframe, but no information was provided to the audit that it had been implemented by the end of year 2024. | An inter-agency utility corridor coordination authority has been established by 2020 to resolve conflicts. But it is not operational at present. | Action should be taken to achieve the goals set out in the policy as scheduled. |
| V. | The Ministry was scheduled to introduce and implement lighting standards for rural, urban and main road lighting, including public places, on a mandatory basis in the year 2020 under the Performance Timeframe, the Improvement of Energy Efficiency and Conservation, but information was not provided to the audit that the relevant standards have been published to | The pilot project is being implemented in accordance with the standards prepared by the Public Utilities Commission and submitted to the Cabinet.

A research-level project for street lamp lighting has been implemented within the Divulapitiya Pradeshiya Sabha area and, based on its results, this is to be introduced to other public places. | Action should be taken to achieve the goals set out in the policy as scheduled. |

date.

- VI. In order to increase the contribution of renewable energy in the strategies for implementing the energy policy, studies had not been conducted on the measures to be taken to resolve the technical problems that arise when absorbing electricity generated from variable renewable energy sources such as wind and solar energy into the power grid, as per paragraph 3.7.5.
- The Public Utilities Commission is seeking suggestions and ideas to identify problems and solutions regarding the integration of renewable energy into the national grid and a report on this will be submitted in the future.
- Conducting studies included in the policy and actions should be taken to resolve issues arising when connecting renewable energy sources to the power grid.