

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Climate Fund (Pvt) Ltd 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. 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 Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Enterprises.

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 Accounting Standards for Small and Medium Sized Enterprises, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

1.4 Audit Scope (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 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 Company'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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;

- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws,

1.5 Audit Observations on the preparation of Financial Statements.

1.5.1 Non-compliance with Sri Lanka Accounting Standards for Small and Medium Size Enterprises

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a) It was observed during the audit that although the depreciation period of the property, plant and equipment owned by the company costing Rs. 5,320,075 had expired, those assets were still being used during the audited year. Accordingly, it was observed that the useful life of those assets had not been estimated accurately in accordance with paragraph 17.19 of section 17 of the Accounting Standards for Small and Medium-sized Enterprises..	It is practically difficult to calculate the useful life of assets by an external party which were given in the financial position of the company. Therefore, action will be taken to appoint a committee for estimate the useful life time of the each asset category in the future.	- Action should be taken in accordance with the accounting standards.
(b) Although the company is being used the cab bearing number GG-9396, which was valued at a cost of Rs. 2,500,000 in the year 2012, but the relevant asset had not been disclosed under non-current assets in the statement of financial position prepared as at 31 December 2022 in accordance with paragraph 19 of Section 2 of the Accounting Standards for Small and Medium-sized Enterprises.	This cab bearing number of GG 9396 which is a cab registered under the name of the Ministry of Environment and the financial position of the company is not sufficient to take it over. Action will be taken to account of it under non-current assets once the cab is taken over.	Action should be taken in accordance with the accounting standards.

1.5.2 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
The Company had not made any provision for doubtful debtors and bad debtors as stipulated in the accounting policies during the year under review.	I accepted. The provision will be provided for doubtful debtors and bad debtors in the preparation of financial statements in future years.	Action should be taken to Provide for the doubtful debtors and bad debtors according to accounting policies.

1.5.3. Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though the surcharges of Rs. 259,600 and Rs. 169,225 respectively were imposed on the delay in payment of contributions to the Employees' Provident Fund for the years 2021 and 2022, and a surcharges of Rs. 29,205 and Rs. 28,537 respectively had imposed on the delay in payment of contributions to the Employees' Trust Fund for the years 2021 and 2022 according to the information obtained by the audit from the Employees' Provident Fund and the Employees' Trust Fund, but these surcharges had not been identified and accounted for in the financial statements for the year 2022.	A surcharge of Rs. 169,225 has not been imposed to the company for the Employees' Provident Fund relating to the year of 2022.. The notice for surcharge imposed on the Employees' Trust Fund had not been received to the Company at the time of preparing the financial statements of 2022.	Actions should be taken in accordance with the statutory requirements prescribed by the Acts.
(b) The annual insurance amount of Rs. 89,662 for the motor vehicle number of KJ-4483 had paid on 14 September 2022 and out of that Rs. 37,359 relating to the year 2023 charged as an expense for the year under review without being accounted for on an accrual basis.	The insurance amount will be accounted for on an accrual basis When preparing the accounts for the year 2023,.	Action should be taken in accordance with the accounting standards.
(c) Although the increase in receivables under working capital changes was shown as a cash flow of Rs. 8,991,693 in the company's 2022 cash flow statement, it was observed that the change in the receivable balance during the year was a cash flow of Rs. 1,519,441.	The value was Rs. 1,519,441 according to the change in the balance of receivables during the year. Due to an oversight, It has been recorded as Rs. 8,991,693.00 by mistake.	The preparation and presentation of final accounts should be conducted under proper supervision.
(d) The cash balance of the company as at 31 December 2022 had not been presented in the cash flow statement which included in the financial statements of 2022 submitted for audit by the company.	The cash balance of the company as 31 December 2022 was shown in the cash flow statement.	The preparation and presentation of final accounts should be done under proper supervision.

1.5.4 Documentary Evidences not made available for Audit

Audit Evidence not Available	Comments of the Management	Recommendation
Although it has been informed to submit the a detailed age analysis of trade receivables for the year 2022, a detailed record of cash advances for the year 2022 and a detailed record of the cash advances receivable balance as at 31 December 2022 to the	A register of cash advances was not maintained in the year 2022 and actions will be taken to maintain that register since the year 2024.	Actions should be taken in accordance with the provisions of the Audit Act

Audit on 08 April 2024, but actions had not been taken to submit the information for audit purposes in accordance with Section 38 of the National Audit Act No. 19 of 2018.. Accordingly, the scope of the financial audit in 2022 was limited.

1.6 Accounts Receivable and Payable

1.6.1 Receivable

Audit Observation	Comments of the Management	Recommendation
It was observed that there was a receivable balance of Rs. 1,287,868 overdue more than a year as at 31 December 2022 and action had not been taken to recover the receivable balance by the company.	The amount of Rs. 248,482, which was stated as receivable from the Central Environmental Authority, was removed from the receivable balance in the year 2024 due to non-performance of the aforementioned work.	Action should be taken to collect the receivable income.

1.7 Non-compliance with laws, rules, regulations and management decisions

Reference to Laws, Rules Regulations	Non-compliance	Comments of the Management	Recommendation
(e) Inland Revenue Act No. 24 of 2017	Paragraph83 Although tax should be deducted from the employment income at the time of payment of an remuneration of employee and the total amount which deducted as tax should be remitted to the Commissioner of Inland Revenue before the 15th day of the following month, but an amount of Rs. 326,000, which had been deducted as tax on the earnings of the Chief Executive Officer and Financial Officer who were employed by the company in the years 2015, 2016 and 2017, was remitted to the Commissioner of Inland Revenue in September 2023 after a delay of 8 years.. The individuals responsible for this delay had not been identified and disciplinary action had not been taken regarding negligence of duty.	Actions have been taken to avoid these delays and remit the relevant payments to the Commissioner of Inland Revenue on the due date at present.	Action should be taken in accordance with the provisions of the Act and the responsible officials should be inquired for the reasons in this regard.

(b) Companies Act No. 07 of 2007

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| (i) | Paragraph 131(1) | Even though the every company is required to submit an annual report containing the matters specified in the Fifth Schedule hereto to the Registrar in the prescribed form once a year, but the company has not taken action accordingly. | Further action is being conducted in coordination with the Company Secretary in this regard. | Actions should be taken in accordance with the provisions of the Companies Act. |
| (ii) | Paragraph 223(1) | Although the company was required to maintain a register of directors and secretaries in accordance with this section, but it had not been taken action accordingly. | The company will be taken an actions to maintain a register of directors and secretaries. | Actions should be taken in accordance with the provisions of the Companies Act. |
| (iii) | Sub-section (a), (b) of paragraph 223 (2) | Although the Board of Directors and Secretaries of the company had been changed in the years 2020 and 2021, but actions had been taken to send the change to the Registrar in the prescribed format for registration in accordance with this section. | The company is being taken actions on this matter and most of the relevant information has been forwarded to the company secretary. Further information will be provided promptly. | Actions should be taken in accordance with the provisions of the Companies Act. |

(c) Department of Public Enterprises Circular No. 01/2021 dated 16th November 2021

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| (i) | Guideline No. 4.2. (h) | Although it had stated that the Audit Committee should meet at least once every 3 months, but only one Audit Committee meeting had held in 2022. | The Audit Committee is scheduled to meet every 3 months in 2024. | Action should be taken as per the circular. |
| (ii) | Operation Manual Paragraph No. 2 | The company had not established operating systems and control procedures as per paragraph 2 of the operations manual. | The company operates with a very limited staff. Accordingly, the operating systems and control methods have been established to the as much as possible. | Actions should be taken to establish operating systems and control procedures in accordance with the circular. |
| (iii) | Operations Manual Paragraph No. 3.1 (i) | The company had not taken actions to approve its recruitment procedures and staff as at 31 December 2022. | Action has been taken continuously with the Department of Management Services since 2020 to obtain approval for staff.A rrequests have been made | Actions should be taken to approve the recruitment procedure and staff promptly. |

to the Ministry of Environment to obtain approval to the recruitment procedure from the Department of Management Services. Action will be taken to prepare and obtaining the approval to the recruitment procedure once the staff is approved.

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| (iv) | Operations Manual Paragraph No. 6.7 | The company had not conducted annual asset verification during the year under review. | The company has not conducted annual asset verification for the year 2022 and asset verification was conducted in the year 2023. | Asset verification should be conducted as per the circular. |
| (v) | Operations Manual Paragraph No. 7.3 | The Board of Directors of the company had not reviewed the Key Performance Indicators (KPIs) along with the approved action plan and budget on a timely basis. | Review of Key Performance Indicators with the approved action plan and budget was not conducted in 2022. However, , the relevant progress will be reviewed from the year 2024 according to the strategic plan prepared based on the years 2024-2028. | The action plan and budget should be reviewed based on key performance indicators. |
| (vi) | Operations Manual Paragraph No.7.4 | The Board of Directors had not examined the physical and financial progress, working capital, cash flows, liquidity level and debt position of the company on a monthly basis. | The Board of Directors is being reviewed the financial position of the company at present. | Action should be taken as per the circular. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.2,530,071 and the corresponding profit in the preceding year amounted to Rs.196,388. Therefore, an improvement amounting to Rs2,333,683 of the financial result was observed. The reason for the improvement is the increase in greenhouse gas declaration verification revenue under the operating income of the company.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
It must implement comprehensive marketing strategies and practices to establish its presence in the industry and grow the market share since the company faces significant competition in the industry, but the company did not incur any expenses for promotional and marketing activities in 2022.	The institution had conducted marketing activities for the year, such as informing clients through e-mail, visiting institutions near Colombo to inform clients, sending leaflets containing the information of the institute to the clients through mail, and contacting them over the phone by the year 2022. The financial allocation was not provided due to financial difficulties in previous years. However, a financial allocation was made for this purpose, in the year 2024.	The plans should be provided in a way that can face competition.

3.2 Procurement Management

Audit Observation	Comments of the Management	Recommendation
A procurement plan had not been prepared as per Section 4.2 of the Procurement Guidelines for the year under review. Furthermore, although a printer value Rs. 70,000 and 04 laptop computers value Rs. 756,000 had been purchased during the year under review, it was observed that procurement procedures had not been followed to maximize the economy, timeliness and quality of procurement, which is the intended objective of Section 1.2.1 of the Procurement Guidelines.	The company has not prepared a procurement plan for the year 2022, but has prepared a procurement plan for the years 2023 and 2024. The company is being followed the procurement process when purchasing assets at present	Procurement plans should be prepared and implemented in accordance with the provisions of the Procurement Guidelines.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comments of the Management	Recommendation
Although the draft annual report and final accounts should be submitted to the Auditor General within 60 days of the end of the financial year as per Guideline No. 6.6 of the Department of Public Enterprises Circular No. 01/2021 dated 16 November 2021, the company had submitted the final accounts for the year under review 12 months late, that was on 05 March 2024.	I agreed. The company is being taken actions to minimize this situation at present and actions are being taken to ensure that can be submitted the accounts for the year 2024 on stipulated time.	Actions should be taken as per provisions of the circular.