

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Sri Lanka Climate Fund (Private) Limited for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, 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 basis of 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 determines, 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 Fund 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 Sub-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 Auditor's Responsibility 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 Fund'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 Fund'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 Fund 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 Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund 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 Sized Enterprises

Non-compliance with the reference to the relevant standard	Comments of the Management	the Recommendation
(a) The Company had entered into agreements with customers in the provision of services, which was the main source of income of the Company. Even though it had been mentioned that 40 percent of the contracted income had to be paid as Mobilization Advance and the remaining 60 percent should be paid in the issuance of service certificates as per those agreements, it was observed that the Company had recognized the full income in recognizing the service provision income and at the time of entering into the agreement. Accordingly, the prudence of the income of Rs. 27,460,515 included in the financial statements for the year 2023 was not confirmed. The amount, for which services had not been completed even by 09 December 2024 was Rs. 7,179,662. Accordingly, it was observed that action had not been taken in terms of paragraph 23.14 of the Accounting Standard for Small and Medium Sized Enterprises in the recognition of income.	In the future, income will be recognized in accordance with paragraph 23.14 of the Accounting Standard for Small and Medium Sized Enterprises.	The income of the Company should be recognized correctly in accordance with the accounting standard.

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| <p>(b) Although the useful life of property, plant and equipment, which costed at Rs. 5,320,075 and owned by the Company, had been terminated, it was observed during the audit that those assets were still being used during the audited year. Accordingly, it was observed that the useful life of the assets has not been estimated correctly as per paragraph 17.19 of the Section 17 in the Accounting Standards for Small and Medium Sized Entities.</p> | <p>A request has been made to the Government Valuation Department by my letter No. SLCF/AF/Val./75 dated 24.07.2024 to conduct a revaluation of the assets of the Company. A reminder has been issued by my letter No. SLCF/AF/Val./75 dated 09.10.2024.</p> | <p>The useful life of the assets should be estimated annually as per the Accounting Standard.</p> |
| <p>(c) Although the Company should recognize a tax expense of Rs. 4,112,708 for the year under review on the income in accordance with Section 29.6 of Sri Lanka Accounting Standards for Small and Medium Sized Entities, action had not been taken to recognize the said tax liability through the financial statements.</p> | <p>This matter will be brought to the attention of the Board of Directors of the Company. Further action will be taken accordingly.</p> | <p>Action should be taken to recognize the tax expense in accordance with the accounting standard.</p> |

1.5.2 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
<p>The Company had not made any provision for bad debt and doubtful debt during the year under review as stated in the accounting policies.</p>	<p>- Provision was not made for bad debt and doubtful debt in the year 2023.</p>	<p>Provision should be made for bad debt and doubtful debt in accordance with the accounting policies.</p>

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>Even though a surcharge of Rs. 507,700 had been imposed on the delayed payment of contributions for the Employees' Provident Fund for the years of 2021, 2022 and 2023 and a surcharge of Rs.64,804 had been imposed on the delayed payment of contributions to the Employees' Trust Fund for the years 2021, 2022 and 2023, the Company had not taken action to account and pay those surcharges.</p>	<p>A surcharge of Rs. 169,225 was not imposed on the Company for the Employees' Provident Fund for the year 2022. The surcharge imposed on the Employees' Trust Fund had not been received by the Company at the time of preparing the financial statements for the year 2022.</p>	<p>Contributions should be paid before the expiry of the prescribed period as recommended by the Acts and the surcharges imposed should be paid.</p>

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

Reference to Laws, Rules, Regulations, Etc.	Non-compliance	Comments of Management	the Recommendation
(a) Section 131 (1) of the Companies Act No. 07 of 2007	Every company shall at least once in every year deliver to the Registrar an annual return in the prescribed form containing the matters such as the stated capital of the Company, the total number of shares issued by the Company, the number of shares forfeited, the date of incorporation of the company and the address of the office, the Company had not submitted such reports after the year 2020.	The annual report for the year 2020 has been submitted and the report for the year 2021 has been prepared. Action is being taken to update this work.	Action should be taken as per the provisions of the Companies Act.
(b) Circular No. 02/2022 dated 28 January 2022 of the Department of Public Enterprises	An amount of Rs. 166,306 had been given as telephone allowance to non-executive posts in contrary to the provisions of the Circular during the year under review.	Other than the post of Driver/Office Assistant of the staff, the other posts are executive level posts. At present, payments are not made to the Executive Officers of Training Projects. Since the driver/office assistant also has to make phone calls in various occasions depending on the existing role of the institution, this payment has been made in accordance with the provisions of the Public Finance Circular No. 01/2020 (ii) dated 2022.01.12 as approved by the Board of Directors. Action will be taken to bring this matter to the attention of the Board of Directors.	Payments should be made only to those entitled in accordance with the provisions of the Circular.

(c)	<p>Guideline No. 2.3 of the Circular No. 01/2021 dated 16 November 2021 of the Department of Public Enterprises.</p>	<p>Action plan along with the corporate plan, and the annual budget approved for the year 2025 by the Board of Directors of the Company had not been submitted to the Secretary of the Line Ministry and the Director General of the Department of Public Enterprises.</p>	<p>Action plan along with the corporate plan, and the annual budget approved by the Board of Directors of the Company for the year 2024 had been submitted to the Secretary of the Line Ministry and the Director General of the Department of Public Enterprises.</p>	<p>Action should be taken in accordance with the provisions of the Circular.</p>
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1.7 Non-compliance with tax regulations

Audit Observation

Comments of the Management

Recommendation

Although every person shall file with Commissioner-General not later than 8 Months after the end of each year of assessment a return of income for the year in terms of Section 93 (1) of the Inland Revenue Act No. 24 of 2017, the Company had not filed the return of income for the year 2023 with the Commissioner General of Inland Revenue even by 10 October 2024.

Action will be taken to bring this matter to the attention of the Board of Directors of the Company. Further action will be taken accordingly.

Action should be taken in accordance with the Sections of the Inland Revenue Act.

2. Financial Review

2.1 Financial Results

The operating result of the Company during the year under review was a profit of Rs. 13,482,727, and the corresponding profit of the previous year had been Rs. 2,530,072. Accordingly, an improvement of Rs. 10,952,655 was observed in the financial result. This increase was mainly due to the increase in the operating income of the Company.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

Comments of the Management

Recommendation

(a) The Company had not established operating systems and control procedures in accordance with paragraph 2 of the Operational

The Company has taken steps to establish operational systems and control methods as much as

Action should be taken in accordance with the provisions of the Circular.

Manual related to the Circular No. 01/2021 dated 16 November 2021 of the Department of Public Enterprises.	possible within the limited staff available in the Company. It has been planned to prepare an Enterprise Resource Plan (ERP) in the years 2027-2028 in accordance with the strategic plan of the Company.	
(b) The Board of Directors of the Company had not reviewed the Key Performance Indicators (KPI) along with the approved action plan and budget in a timely manner in accordance with paragraph No. 7.3 of the Operational Manual related to the Circular No. 01/2021 dated 16 November 2021 of the Department of Public Enterprises.	The Company will review the Key Performance Indicators (KPI) along with the approved action plan and budget at the meetings of the Board of Directors from the year 2024.	Action should be taken to identify the Key Performance Indicators in accordance with the provisions of the Circular.

3.2 Asset Management

Audit Observation	Comments of the Management	Recommendation
Although the Company has been using a cab valued at Rs. 2,500,000 belonging to the Ministry of Environment since 2012, action had not been taken to transfer the cab to the Company up to the date of the audit.	This cab bearing GG 9396 is a cab belonging to the Ministry of Environment. Since this vehicle has not been transferred to the Company, it has not been included in the statement of financial position. Once the cab is transferred, action will be taken to include it in the financial statements.	Action should be taken to transfer the Cab to the Company in a formal manner.

4. Accountability and Good Governance

4.1 Presentation 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 after the end of the financial year as per the Guideline No. 6.6 of Circular of the Department of Public Enterprises bearing No. 01/2021 dated 16 November 2021, the Company had submitted the final accounts of the year under review on 03 September 2024, after a delay of 07 months.	It has been planned to submit the financial statements for the year 2024 and the draft annual report on the due date.	Action should be taken in accordance with the provisions of the Circular.

4.2 Audit Committee

Audit Observation	Comments of the Management	Recommendation
Although it was stated in Guideline No. 4.2(h) of the Circular of the Department of Public Enterprises bearing No. 01/2021 dated 16 November 2021 that the Audit Committee should meet at least once in every 3 months, only two Audit Committee meetings were held in the year 2023.	Currently, it has been planned to hold four (04) Audit and Management Committee meetings for the year.	Action should be taken in accordance with the provisions of the Circular.