

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka Climate Fund (Pvt.) Company for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and statement of comprehensive income, statement for changes in equity, cash flow statement for the year then ended and notes to the financial statements, including 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 the 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 2024, and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Accounting Standards for Small and Medium Scale Enterprises.

**1.2 Basis for qualified Opinion**

My opinion is qualified based on 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 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 the Sri Lanka Accounting Standards for Small and Medium Scale 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 for accounting unless management either intends 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 fund's financial reporting process.

As per Section 16(1) of 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 judgement and maintain professional scepticism throughout the audit. I also

- Appropriate audit procedure were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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
- An understanding of internal control relevant to the audit was obtained 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 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 discussions issued by the governing body of the company

- Whether the company has performed according to its powers, functions and duties,
- 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 preparation of the Financial Statements

### 1.5.1 Non-compliance with the Accounting Standards for Small and Medium Scale Enterprises

	Non-compliance with reference to relevant standard	Comments of the Management	Recommendation
(a)	As per Accounting Standard for Small and Medium Scale Enterprises No.23.14 when the result of a transaction related to supply of services can be reliably estimated, it had been indicated that the revenue should be identified with regard to the stage completed at the end of reporting period. The pre advance amount of 40 percent obtained at entering into agreement related to the supply of services in the year under review by company had been identified as income; it had not been disclosed in the financial statements on identification of income.	The obtaining of an amount of 40 percent in supply of services by company is not a pre advance and it is 40 percent from the project income and the supply of services such as sending of basic application related to project and review, preparation of cost, preparation of impartial report and risk report, preparation of set of project proposals, conducting basic meetings, carrying out strategic analysis, carrying out verification risk assessment report and development and approval of verification plan are provided to the client by the company.	The policy on identification of income should be disclosed by the notes to the financial statements as per standard.
(b)	Even though the useful life of property, plant and equipment at a cost of Rs.5, 320,075 had closed, it was observed in the audit that such assets had utilized in the year under review. Accordingly, the useful life of such assets had not been accurately estimated and adjusted in the financial statements as per paragraph No.17.19 of the Accounting Standard for Small and Medium Scale Enterprises.	A committee had been appointed to revalue the property, plant and equipment of the company. The valuation activities are being carried out presently. A request had been made from Ministry of Environment to appoint a committee to value the motor vehicle of the company again.	As per standard, the useful life should be estimated annually.
(c)	In accordance with Accounting Standard for Sri Lanka Small and Medium Scale Enterprises No.29.6, though Income Tax of Rs.4, 564,356 should be identified in	The action is being taken in this regard. The action will be taken to identify the tax revenue and include in the financial statements	Income Tax should be accounted as per standard and existing Income Tax laws.

relation to the year under review by in the preparation of financial company, no action had been taken to statements. identify such tax liability and account it.

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| (d) | Though a cab is used by company in the year under review, its value had not been disclosed under non-current assets in the statement of financial position prepared as at 31 December 2024 as per 2.19 of Accounting Standard for Small and Medium Scale Enterprises. | Since this cab belongs to Ministry of Environment, it had not been disclosed under non-current assets in the statement of financial position of the company. | As per Standard, the assets should be accounted. |
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### 1.5.2 Accounting Policies

Audit Issue	Comments of the Management	Recommendation
No provision had been made for bad debts and doubtful debts by the company as indicated in the accounting policies.	No provision had been made for bad debts or doubtful debts in 2024.	As per accounting policies, the action should be taken to make provision for bad debts or doubtful debts.

### 1.5.3 Accounting Deficiencies

Audit Issue	Comments of the Management	Recommendation
In accordance with the information obtained directly from Employee's Provident Fund and Employee's Trust Fund by audit, even though a surcharge of Rs. 507,700 on delay of payment of contributions of Employees' Provident Fund from 2021 to 2023 and a surcharge of Rs.91,263 on delay of payment of contributions of Employees 'Trust Fund from 2020 to 2023 had been enforced, no step had been taken to pay this money up to 30 April 2025 and no step had been taken to identify the responsibility arisen in relation to payment of said surcharge by company through the financial statements and account it.	A surcharge of Rs. 507,700 on delay of payment of contributions of Employees' Provident Fund and a surcharge of Rs.91,263 on delay of payment of contributions of Employees 'Trust Fund had not been received to the company. Owing to Covid pandemic situation prevailed in 2020, 2021 and 2022 and the economic crisis, the income of the company was in very low level and it was problematic to pay the salaries of the company also. Under this situation, the contributions couldn't be duly paid in that period of time and presently, the contributions are duly paid.	After identifying the responsibilities properly, the action should be taken to account as per accounting standards.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Issue	Comments of the Management	Recommendation
The debtor age analysis, detailed schedules and balance confirmations in relation to trade receivables of Rs. 16,092,645 as at 31 December 2024 had not been submitted to the audit. Furthermore, the above information had not been submitted to the audit in 2022 and 2023 and it had been indicated by the answers provided for the draft reports that such details will be provided to the audit in the next accounting year. Due to this reason, it was observed an uncertainty on the existence and accuracy of this trade receivable balance.	The action will be taken to provide the reports on the matters indicated in this report with regard to trade receivable when submitting the future financial statements.	The detailed information for confirmations of the trade receivable balances should be maintained by institute.

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

Reference to laws, rules, regulations	Non-compliance	Comments of the Management	Recommendation
(a) Section 131(1) of the Companies Act No.07 of 2007	Even though every company shall at least once in every year deliver to the Registrar an annual return in the prescribed form containing the matters specified in the fifth schedule of the Act such as stated capital of the company, total number of shares issued by the company, number of shares forfeited, date of incorporation of the company and address of the company, no such reports had been Submitted after 2020.	The action is being taken to update this task.	In terms of the sections of companies Act, the action should be taken to submit an annual report including relevant facts to the Company Registrar.
(b) Section 47 of Employees' Provident Fund No.15 of 1958 and section	Though the basic salary and the approved allowances should be considered in calculation of the contributions for Employees' Provident Fund and Employees	Since June 2023, the contribution for Employees' Provident Fund and Employees' Trust	The contribution for Employees Provident Fund and

16(1) of Employees' Trust Fund No.46 of 1980	Trust Fund, the contributions for Employees' Provident Fund and Employees' Trust Fund had been understated by Rs.54,093 only for the year under review due to consideration only basic salary and cost of living allowance in calculation the contribution for such funds and non-consideration of the other allowance and telephone allowance at the beginning by company.	Fund are paid based on the basic salary and cost of living of the employee.	Employees' Trust Fund should be calculated on the salaries identified as per the criteria mentioned in the Act.
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(c) Guidelines No.2.3 of Circular No.01/2021 dated 16 November 2021 of Department of Public Enterprises	The corporate plan with the action plan approved by Board of Directors of company and annual budget had not been presented to the Secretary of line ministry and Director General of department of Public Enterprises.	These reports had been submitted to Ministry of Environment and Department of Public Enterprises by the letter No. SLCF/VD/T&W dated 09.10.2024.	The action should be taken to submit relevant plans and documents on due time as per circular.
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## 1.8 Non-compliance with the tax regulations

Audit Issue	Comments of the Management	Recommendation
In terms of section 93 (1) of Inland Revenue Act No.24 of 2017, every person shall file a return of income with Commissioner General of Inland Revenue for relevant year of assessment not later than 08 months after the end of every year of assessment, no action had been taken by the company accordingly.	The action will be taken to submit for the attention of Board of Directors in this regard and the further action will be taken in that manner.	Taking action to file a return of income to Commissioner General of Inland Revenue and the responsible persons should be inquired the reasons for not taking action in that manner In accordance with the provisions of the Act.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 15,112,908 and the corresponding profit in the preceding year amounted to Rs. 13,482,727. Accordingly, an improvement amounting to Rs. 1,630,181 of the financial result was observed. The reasons for the improvement are growth of the project income by Rs. 6,485,133 and growth of salaries and administrative expenses by Rs.4, 059,472.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Issue	Comments of the Management	Recommendation
<p>“A carbon neutral and climate resilient blue green economy” had been identified as Vision of the company and “To support the nation of Sri Lanka to achieve low carbon and climate resilient blue green development by 2048” had been identified as the Mission. 17 objectives had been identified by company for that.</p> <p>The strategic directions should be prepared through the strategic plans in compliance with the national policies and priorities by Board of directors in order to fulfil the objectives of institute and implemented and the Key Performance Indicators (KPI) should be established for institutionalization of post review mechanism and the all objectives identified by Board of Directors taking into consideration the requirements of the major parties in order to achieve the objectives of institute for performance monitoring. Similarly, the activities should be revised in order to fulfil relevant objectives by performing a frequent review on implementation of the objectives of the company.</p> <p>The development of a strategic operational plan reachable to Key Performance Indicators and objectives identified by the Board of Directors is included in the key functions of Chief Executive Officer. But it was observed that the relevant activities had</p>	<p>In accordance with Articles of Association of Sri Lanka Climate Fund (Pvt) Company, the objectives established are implemented as per the annual plans with the mediation of project and verification units of institute and the certain activities are implemented within the relevant period of time as per the strategic plan 2024-2028 after employee recruitments, trainings and other technical developments of the institute. Since it is difficult to implement certain objectives owing to the technical reasons such as higher equipment prices, higher prices for hiring tools and increase of external experts fees, it is due to be forwarded to the meeting of Board of Directors to be held in October 2025 in relation to alteration of said objectives. The instructions had been requested by ministry of Finance in writing since 2023 with regard to alteration of the objectives of Sri Lanka</p>	<p>The activities should be planned, implemented and reviewed the progress from time to time enabling to fulfil the objectives of the institute.</p>

not been identified and implemented for achievement of 13 out of 17 declared objectives of the company or about 76 percent in the year under review and no any activity in relation to 08 out of 17 above-mentioned objectives identified since 2016 had not been performed by the company from the beginning to the date of audit. Accordingly, it was observed in the audit that the measures had not been taken to make, remove or to amend in order to achieve such objectives periodically having made follow-up for the objectives of company timely and reviewed accurately and identified the feasibility of the company by Board of Directors and Chief Executive Officer.

Climate Fund (Pvt) Company and the action will be taken to update again that task through Secretary of company. Under the key services carried out by company, the action will be taken to implement at least one new service year by year and several new business ideas couldn't be implemented per year due to increase of frequent employee resignations and taking more than one year for adaptation of new employees to the service and the action had been taken since 2022 to commence new services as per the Strategic plan 2024-2028.

### 3.2 Human Resource Management

Audit Issue	Comments of the Recommendation Management
Even though the approval of the Department of Management Services should be obtained with the Scheme of Recruitments, salary scales and allowances and approval of Board of Directors as per paragraph No.3.2 (i) of Operational Manual of Circular No.01/2021 dated 16 November 2021 of Department of Public Enterprises and with recommendation of line ministry, such approval had not been obtained.	The drafts of Scheme of Recruitments had been already prepared and the amendments are being made by discussing with the Department of Management Services from time to time related to that. Accordingly, the action is being taken to get approved the relevant scheme of recruitment. As per Circular, the action should be immediately taken to approve the Scheme of Recruitments.