

**1. Financial Statement**

**1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka Climate Fund (Private) Limited Company for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Small and Medium Sized Entities.

**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 Accounting Standards for Small and Medium Sized Entities, 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 Responsibility in Auditing of 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 Internal Control over the preparation of financial statements.**

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

<b>Audit Observation</b>	<b>Comments of the management</b>	<b>the Recommendation</b>
The non-current asset accounts related to property, plant and equipment and depreciation accounts related to those assets were not represented in the general ledger also and the same values had not been shown even in the trial balance.	Correction will be done this in the future.	Action should be taken to maintain the general ledger properly.

### **1.5.2 Non-Compliance with Sri Lanka Accounting Standard for Small and Medium -sized Entities.**

<b>Non-Compliance with the reference to particular Standard</b>	<b>Comments of the Management</b>	<b>the Recommendation</b>
(a) It was observed that although the effective life time of the property, plant and equipment at the amount of Rs. 5,366,485, which owned by the company was over, the similar assets were being used during the audited	It is difficult to incurred expenses for valuation and revaluation of asset according to the current financial situation of the company. But since this is a compulsory, actions	Action should be taken according to the relevant standards.

year. Thus, it was observed that the effective life of those assets has not been correctly estimated as per paragraph number 17.1.9 of Part 17 of it. will be taken to complete these activities in the future.

- (b) Although the company used the cab number GG-9396 which was valued at a cost of Rs.2,500,000 in the year 2012, the relevant asset had not disclosed under non-current assets in the statement of financial position prepared as at 31 December 2021 as per paragraph no.19 of Part 2 of Accounting Standards for Small and Medium Sized Entities. This cab was registered in the name of the Secretary, Ministry of Environment and action will be taken to include it in the assets after taking over it to the company. Action should be taken according to accounting standards.
- (c) An income amount of Rs.248,482 had been shown under operating income which could not be recognized as income under Section 23.14 of Part 23 of Accounting Standards for Small and Medium Sized Entities. It was observed that this service has not been performed so far and the Central Environment Authority has not made attention concern to this. Therefore, this matter will be investigated further and necessary actions will be taken. Action should be taken according to accounting standards.
- (d) Even though it had been stated that the comparative information related to the previous year should also be correctly presented in the financial statements when correcting the errors of the previous year, according to Section 10.21 (a) of the Accounting Standards for Small and Medium Sized Entities. The company had not stated the corrected gratuity and audit fee amounts related to the correction of errors for the year 2020. Action will be taken to allocate provisions for such transactions in the preparation of accounts in future years. Action should be taken according to accounting standards.

### 1.5.3 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Action had not been taken to identified and accounted properly of the surcharge to be paid to the Employees' Provident Fund and the Employees' Trust Fund, respectively the amounts of Rs.259,600 and Rs.29,205 due to the delay in the payment of contributions related to the year of 2021.	Action will be taken to allocate provisions for similar transactions when preparation of accounts in future years.	An expenditure should be controlled according to the provisions of the Act.
(b) An annual insurance amount of Rs.43,873 had paid on 1 July 2021 for the car number bearing KJ-4483 and the amount of Rs. 14,664 out of which, related to the year 2022 had written off as the expenditure without accounting under the accrual basis in the year reviewed.	Action will be taken to report similar transactions in the future years.	Action should be taken to account an accrual basis.
(c) Although the amount of Rs.129,863 pertains to the year 2021 from the total amount of Rs.150,000 which had been paid to the Sri Lanka Accreditation Board on 01 July 2021 for the annual accreditation fees for the years 2021/2022, the total amount had accounted as the expenditure of the year under review.	Action will be taken to report similar transactions in the future years.	Action should be taken to account for an accrual basis.
(d) The office of the company had occupied in the Timber Corporation before being occupied in the premises of the Ministry of Environment in the year 2023, but the office rent at the amount Rs.1,415,849 had not been paid which payable to the Timber Corporation from the year 2017 to 31 December 2021.The provision had not been allocated from the financial statements of the year 2021 for this and it had not been disclosed by the notes in the accounts.	It has not been possible to settle this amount due to the financial condition of the company so far, but action will be taken to pay this amount in the future.	The liabilities should be properly identified and disclosed through financial statements.

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| (e) | Although the value of cash and cash equivalents as on the last day of 2020 was Rs.10,071,017 in the cash flow statement of the year under review, the amount of Rs.71,017 had been stated as the opening balance of cash and cash equivalent for the year 2021. | The value of the fixed deposit had been reported under the cash and cash equivalent in the year 2020 In the year 2021 and that fixed deposit has been recorded under non-current assets in the year 2021. | Action should be taken according to accounting standards. |
| (f) | The amount of Rs.702,500 had been adjusted in the statement of cash flows as corrections of errors in the previous year when calculating the net cash flow generated by operating activities in the year 2021.  | This adjustment has been made on the basis of previous audit observations.  | Action should be taken according to accounting standards. |

#### 1.5.4 Documentary Evidences not made available for Audit.

Subject	Amount Rs.	Evidence not submitted	Comments of the management	Recommendation
(a)	Revenue -	The 07 numbers of invoices were not submitted for audit purposes which mentioned to have been cancelled related to the year 2021 and the reason for cancellation of those invoices was not submitted for audit. The company had not established a formal internal control system regarding revenue collection and accounting and accordingly, it could not be able to confirm the accuracy of the income of Rs. 7,124,960 stated in the financial statements of the year 2021 by the company.	The copies of 07 cancelled invoices were not submitted for audit in the year of 2021 and the value of the invoices submitted was stated in the financial statements.	A formal internal control system should be established and maintained up-to-date to ensure that all income is being accounted.

(b) Performance	<p>Even though the information about the financial and physical performance of the company has been inquired to be submitted to the audit on 27 July 2023, an information had not been submitted for audit purposes according to Section 38 of the National Audit Act No. 19 of 2018. Thus, the audit scope of the financial and physical performance related to the financial year 2021 had limited.</p>	Answers were not provided.	Action should be taken in accordance with the provisions of the National Audit Act.
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## 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions.

	<b>Reference to Laws, Rules Regulations</b>	<b>Non-compliance</b>	<b>Comments of the management</b>	<b>Recommendation</b>
(a)	Section 16(1) of the Employees' Trust Fund Act No. 46 of 1980	Although the employer shall remitt the contributions of the employees in respect of each month to the Board on or before the last day of the following month, the company had to pay a surcharge amount of Rs.15,723 due to late payment of contributions during the year under review.	Action will be taken to prevent these delays in the future.	Action should be taken in accordance with the provision of the Act.
(b)	Section 120(a) of the Inland Revenue Act No. 24 of 2017	Though the amount deducted monthly as payment of tax when earned by the employer from the employees shall be remitted to the Commissioner of Inland Revenue before the 15th day of the following month, the amount of Rs.326,000 that should have been paid as Payee tax related to the years 2015, 2016 and 2017 had been remitted to the Commissioner of Inland Revenue on 14 September 2023, about 8 ,7 and 6 years late respectively.	All these payments have been paid to the Department of Inland Revenue at present and existing payments are duly made without delay.	Action should be taken in accordance with the provision of the Act .

(c)	Companies Act No. 07 of 2007	(i) Section 131(1) i. Despite every company is required to submit an annual report containing the matters specified in the Fifth Schedule to the Registrar in the prescribed form once every year, the company had not been taken actions accordingly.	The annual report of the year 2020 has been submitted to the Ministry now and other annual reports will be submitted without delay.	Action should be taken according to the provisions of the Act.
(ii)	Section 223(1)	ii. Even if the company is required to maintain a register of directors and secretaries as per this section, the company had not taken actions accordingly.	Action will be taken in the future by considering of this.	Action should be taken according to the provisions of the Act.
(iii)	223 (2) sub-sections (a), (b)	ii. Although the board of directors of the company and secretaries had changed in the years 2020 and 2021, the change had not submitted to the registrar in the prescribed format for registration in accordance with this section.	The company secretary is being taken actions regarding to this.	Action should be taken according to the provisions of the Act.
(d)	Circular No. 01/2021 dated 16 November 2021 of the Department of Public Enterprises	(i) Guideline No. 2.3 The action plan along with the corporate plan approved by the board of directors of the company and the annual budget had not been submitted to the secretary of the line ministry and the Director General of the Department of Public Enterprises.	The strategic plan has been submitted to the Department of Public Enterprises for approval so far.	Action should be taken as per the guidelines which was mentioned in the circular.
(ii)	Paragraph No.2 of operations Manual	The Company had not established the operating systems and control procedures as per paragraph 2 of the Operations Manual.	Action will be taken in the future by considering of this .	Action should be taken as per the guidelines which was mentioned in the circular.



(iii)	Paragraph No.6.7 of operations Manual	The company had not conducted an annual asset verification during the year under review.	Action will be taken in the future in this regard.	Action should be taken as per the guidelines which was mentioned in the circular.
(iv)	Paragraph No.7.3 of operations Manual	The Board of Directors of the company had not periodically reviewed the Key Performance Indicators (KPI) along with the approved action plan and budget.	Performance indicators have been developed and incorporated into the corporate plan and will be submitted for the review in the future.	Action should be taken as per the guidelines which was mentioned in the circular.
(v)	Paragraph No.7.4 of operations Manual	The Board of Directors had not reviewed the reports related to the physical and financial progress of the company, working capital, cash flows, liquidity level and debt position on a monthly basis.	Action will be taken in the future by considering of this.	Action should be taken as per the guidelines which was mentioned in the circular.
(vi)	Paragraph No. 7.5 of operations Manual	The performance reports which are prepared monthly, quarterly and annually by the company had not been forwarded to the Treasury.	This report has been submitted to the Ministry.	Action should be taken as per the guidelines which was mentioned in the circular.
(e)	Guideline No.6 of Circular No. 01/2021 dated 16 November 2021 of the Department of Public Enterprises	Even if the draft annual report and final accounts are to be submitted to the Auditor General within 60 days of the end of the financial year, the company had submitted the final accounts of the year under review 20 months late that was on 30 October 2023.	Action will be taken to submit the annual reports promptly in the future. The annual report of the year 2020 has been submitted to the Ministry.	Action should be taken as per the guidelines which was mentioned in the circular.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs 196,388 and the corresponding loss in the preceding year amounted to Rs. 771,256. Therefore, an improvement amounting to Rs. 967,644 of the financial result was observed. The reason for the improvement was increased in operating income of the company.

### 3. Operational Review

#### 3.1 Idle or underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
It has been mentioned that an air conditioner purchased by the company for Rs. 209,000 has been installed in the building where the company office was located above this and it was observed that the air conditioner is currently not being used for the activities of the company.	This air conditioner was installed in the building where the office of the company was earlier. Actions were taken to get the air conditioner after vacating the building, but it has not been possible to obtain. Actions are being taken to obtain this in the future.	Assets should be utilized to their maximum capacity.

#### 3.2 Procurement Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A procurement plan had not been prepared as per Section 4.2 of the Procurement Guidelines for the year under review. It was observed that a procurement process had not followed to maximize economy, timeliness and quality of procurement which was the intended objective of 1.2.1 of the Procurement Guidelines when the purchase of computer machines of Rs.125,000 in the year under review	These procurement activities will be conducted properly in the future.	Action should be taken as per the provisions of the procurement guidelines.

#### 3.4 Human Resources Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Even though the staff of the company was 08 officers as at 31 December 2021, the company had not been taken actions to approve the staff or recruitment procedure.	Action will be taken to approve the staff after obtaining the approval for the strategic plan.	Action should be taken to approve the recruitment procedure.